

The University of Chicago

THE HISTORY OF
BANKING IN ILLINOIS SINCE 1863

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE SCHOOL OF BUSINESS
IN CANDIDACY FOR THE DEGREE OF DOCTOR
OF PHILOSOPHY

1938

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JOSEPH WILLIAM CHARLTON

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CHAPTER I

BANKING IN ILLINOIS, 1863-1888

National Banking in Illinois, 1863-1888

The inception of the national banking system.--The proponents of the National Bank Act had two main objectives: to give the country a uniform and sound currency and to afford a market for government bonds.¹ Having evolved the idea during the summer of 1861, Secretary of the Treasury Chase suggested in his report of December, 1861, the desirability of the gradual issue of national bank notes to replace the existing bank notes authorized by the laws of the several states.² While Chase desired to improve the market for bonds, it must be recognized that in his speeches and interviews, while the act was under discussion and while it was being put into operation, he stressed the need of a uniform currency.³

The bill was drawn up by Congressman Spaulding of New York and presented to the Ways and Means Committee in January, 1862.⁴ Undaunted by the failure to get action on the bill, Chase again called attention to the need for a national banking act in his report of December, 1862.⁵ Soon thereafter it was reported favorably and passed the Senate by a vote of 23 to 21. Had it not been for the able support of Senator Sherman, who emphasized the superiority of national bank notes over greenbacks, it would, in all probability, have been defeated.⁶ It passed the House by a slightly larger margin (78 to 64) and was signed by the President on February 25, 1863.⁷

¹Andrew McFarland Davis, The Origin of the National Banking System (Washington, 1910), pp. 109 ff.

²Report of Comptroller of the Currency, 1875, p. x.

³Davis, op. cit., p. 89.

⁴Ibid., p. 87.

⁵Report of Comptroller of the Currency, 1875, p. xi.

⁶Ibid.

⁷Ibid.

Mr. Hugh McCulloch of Indiana, an original opponent of the act, became the first comptroller of the currency. So many amendments were proposed by him that the act was completely revised and repassed June 3, 1864.¹

For our purposes a brief statement of the provisions of the act will suffice. A separate bureau was set up in the treasury department, headed by the comptroller of the currency, to supervise the new banking system. Five persons might form a banking association, provided they could meet the capital requirements which were as follows: \$50,000 in places of less than 6,000 population; \$100,000 in places of more than 6,000 but less than 50,000; and \$200,000 for all other cities. The new banks were to do a general business but were not permitted to make loans on real estate and were not permitted to own real estate except what was necessary to carry on their business. If real estate were taken over to protect a loan it must be disposed of in five years.²

Each national bank was to deposit with the treasurer of the United States registered United States bonds equal to not less than one-third of capital or not less than \$30,000. Thereupon, the comptroller would deliver national bank notes equal to 90 per cent of the market value of the bonds delivered, but not over 90 per cent of par. Such notes were not to exceed the amount of paid-in stock and the total volume for the entire country should not exceed 300 million dollars.³

The national bank notes were to be issued in denominations of one dollar to one thousand dollars but not more than one-sixth might be for less than five dollars.⁴ Reserves were required equal to 15 per cent of notes plus deposits except in seventeen reserve cities where the reserve was 25 per cent. It was further provided that three-fifths of the 15 per cent might be in balances in a reserve in a reserve city and that banks in the seventeen reserve cities might carry one-half of their reserves in New York. New York banks were required to carry their 25 per cent reserves in their own vaults.⁵

¹Horace White, Money and Banking (New York, 1911), p. 349.

²"Laws of the United States Concerning Money, Banking, and Loans, 1778-1909," Senate Documents, 1909-1910, XXXIII, 330-43.

³Ibid., pp. 339-40. ⁴Ibid., p. 342. ⁵Ibid., pp. 345-48.

The law specified that the national banks should render a report of their condition on the first day of January, April, July, and October and were to submit to examination by representatives of the comptroller.¹

It was soon found necessary to make slight changes in the law. The act of March 5, 1865, put teeth into the law by subjecting the notes of state banks to a 10 per cent tax beginning July 1, 1866.² Also, it was found that the quarterly reports on known dates were conducive to "window dressing"; hence, the act of March 3, 1869, provided that in lieu of the quarterly reports the comptroller should make five calls during the year as of some past date.³ The first call under the new law was made on April 20, 1869, as of April 17.⁴ Several other changes in the law pertaining to national bank notes will be discussed in connection with our treatment of that subject.

We turn now to the reception accorded the national banking system by Illinois. According to the Centennial History, "the national banking system received a hearty welcome from the business men of the state," because it filled the vacuum caused by the abolition of the free state banks.⁵ But, superfluous to say, the high capital requirement made the development slow.

The First National of Chicago was the eighth bank chartered by the comptroller while the First Nationals of Cairo, Aurora, and Monmouth were the 33rd, 38th, and 85th respectively. Thus Illinois had four of the first hundred banks chartered.⁶ The Second National of Chicago was the 225th bank chartered; the Third National, the 236th; the Fourth National, the 276th; the Fifth National, the 320th; and the Mechanics National, the 466th.⁷

In July, 1864, Illinois had 28 national banks with capital of \$2,828,000 and circulation of \$1,089,000. At the same time Indiana had 31 banks with capital of \$3,422,000 and circulation of \$2,242,000 while Ohio had 80 banks with capital of \$9,180,000 and notes amounting to \$3,736,000.⁸ Thereafter the growth was

¹Ibid., p. 359. ²Ibid., p. 362. ³Ibid., p. 367.

⁴Report of Comptroller of the Currency, 1869, p. viii.

⁵Centennial History of Illinois, IV, 362.

⁶Bankers' Magazine, XIX, 133.

⁷Ibid., p. 314. ⁸Ibid., p. 176.

somewhat more rapid as is indicated by the statistics for October 1, 1866, when Illinois had 82 national banks with \$11,570,000 capital and a circulation of \$9,448,000.¹

There can be no doubt that the failure of the legislature to pass an enabling act proved a deterrent factor in this early development. The National Banking Act of 1864 specified that prior to July 1, 1865, a state bank desiring to change to a national charter should receive preference over a new association.² Many states passed acts to encourage the nationalization process; for example, in August, 1864, Pennsylvania adopted a law stating that any state bank might become an association under the national act if two-thirds of the stock voted in favor.³ A similar bill was introduced into the Illinois Senate by Mr. Easton entitled, "an act to amend the general bank law in such a manner as to permit the banks of this state to be organized under the national currency acts, and for other purposes." This bill was reported favorably by the Committee on Banks and Currency but lost in the Senate by a vote of 17 to 5.⁴ The conclusion is inescapable that the politicians were opposed to national banks.

That there was some hostility to national banks is not to be gainsaid. On September 9, 1867, a "convention of citizens of Illinois" was held at Ottawa which emphatically recommended the repeal of the National Bank Act and the issue of more legal tender notes in place of national bank notes.⁵ Representing this same intransigent attitude, the Aurora Herald in April, 1869, bitterly attacked national banks and supported the contention that the entire field should be left to the private banks.⁶ However, there is no evidence that this agitation had any great effect upon the growth of national banking. It may properly be regarded as the precursor of the greenback movement of the next decade.

One is impressed with the large number of private banks that incorporated under the federal laws. A few examples may be

¹Report of Comptroller of the Currency, 1866, p. iii.

²Bankers' Magazine, XIX, 865.

³Ibid. ⁴Senate Journal, 1865, pp. 302, 693.

⁵Chicago Tribune, September 10, 1867, p. 1.

⁶Bureau County Republican, April 22, 1869.

worthwhile. In April, 1864, the First National Bank of Canton, Illinois, was organized to assume the business of Mr. C. F. Heald, private banker.¹ During the same month, the Second National Bank of Freeport was launched by A. H. Stone, "late private banker of Freeport."² Three of the four nationals organized in Rockford had private banking antecedents. The private bank founded in 1848 by Thomas D. Robertson and John A. Holland opened as the Winnebago National on April 3, 1865. The banking house of Lane, Sanford and Company, established in 1855, became the Second National of Rockford, while the Third National had its origin in the firm of Briggs, Spafford and Penfield, which had done a prosperous business since 1854.³

A rather extreme example of how banks changed from one charter to another is afforded by the Corn Exchange Bank. Organized as a national in September, 1870, by members of the Board of Trade, it functioned in that capacity until 1879 when it gave up its charter and continued as a private bank until 1886 when it bought a state charter. In 1898, it reverted to its original status, a national institution.⁴

National bank notes.--Because the free state banks of issue were in process of liquidation at the inception of national banking, great importance was attached to the issue of national bank notes. It will be recalled that the act of 1864 provided that each state should be given a quota on the basis of population and wealth with the total issue limited to 300 million dollars.⁵ Illinois was awarded \$8,175,000 on the basis of population and \$3,660,000 on the basis of wealth, making a total quota of \$11,838,000.⁶ However, at the end of 1865, Illinois national banks had only \$7,885,000 in notes outstanding. This was about \$400,000

¹Bankers' Magazine, XVIII, 921.

²Ibid., p. 1000.

³Charles A. Church, A History of Winnebago County (Chicago, 1910).

⁴Francis Murry Huston and Andrew Russell, Financing an Empire: Banking in Illinois (Chicago, 1926), IV, 7.

⁵Report of Comptroller of the Currency, 1900, I, xxxiv.

⁶Commercial and Financial Chronicle, February 10, 1866, p. 169.

below her quota.¹

In 1870 the law was modified so as to raise the total to 354 million and the comptroller was instructed to make a new quota on the basis of the Census of 1870. This change was due to a feeling that the eastern and middle states had more than their share because the act of 1864 gave state banks precedence over new banks applying for a charter and most of the state banks then existing were in the East.² Under the new quota Illinois was entitled to national bank notes totalling \$24,155,000 but on November 1, 1872, the comptroller had issued to Illinois banks only \$18,782,000 in bank notes of which \$15,998,000 were in actual circulation.³ In other words, Illinois was 6 million dollars under her quota.

More significant was the law of June 20, 1874, which stipulated that no reserve needed to be kept against notes except a 5 per cent redemption fund with the Secretary of the Treasury and that banks might withdraw their bonds deposited with the Treasury by depositing lawful money with the Secretary of the Treasury equal to the amount of bank notes covered by the bonds withdrawn.⁴ But this applied only to the big banks for the law read: "the amount of the bonds on deposit for circulation shall not fall below \$50,000."⁵

There was a sharp decline in circulation from 1873 to 1878; to be exact, the decline was from \$15,260,000 to \$8,062,000. But the decline for the Chicago banks was from \$5,709,000 to \$468,000. There can be no doubt that the city banks availed themselves of the privilege of reducing their notes to \$50,000. For example, the First National reduced its bank notes from \$360,000 to \$45,000 during the same period.⁶

Two other changes in the law should be noted. The Resumption Act of January 14, 1875, removed the aggregate limit of 354

¹Ibid.

²Report of Comptroller of the Currency, 1872, p. vii.

³Ibid., p. xi.

⁴Ibid., 1874, p. xxxiv.

⁵"Laws of the United States Concerning Money, Banking, and Loans, 1778-1909," Senate Documents, 1909-1910, XXXIII, 419.

⁶Report of Comptroller of the Currency, 1873, p. 574; Ibid., 1878, p. 613.

million dollars; consequently, the only limit to circulation was section 5171 which provided that a bank of \$500,000 capital might issue notes to 90 per cent of capital; a bank of capital from \$500,000 to \$1,000,000 to 80 per cent; a bank with capital of \$1,000,000 to \$3,000,000 capital to 60 per cent.¹ This new law, passed in accordance with the new policy of retiring greenbacks up to 80 per cent of the increase in national bank circulation, was without effect in Illinois, for this state had never used its quota.

A final change was made in July, 1882, the new law permitting all banks to have a circulation of 90 per cent of paid-in capital irrespective of the size of the bank.² Furthermore, banks were required to deposit bonds equal to one-fourth their capital rather than one-third as in the past.³

This whole discussion suggests the question of the profit accruing to the issue of national bank notes. It was argued by the antibank press, and by individuals of like persuasion, that the national banks collected double interest; that is, on the bonds securing the notes and interest on the loans made possible by the notes.⁴

For many years the comptroller subscribed to this theory of a double profit. In 1875 he calculated that where the rate of interest was 7 per cent the extra profit from circulation was slightly less than 3 per cent.⁵ Three years later he calculated that capital invested in bonds to secure circulation yielded two and one-fourth per cent more than if invested directly.⁶ Of course, this lower estimate was due to an increase in the premium on bonds.

Calculations differed because no one knew over how many years the bond premium should be written off. The Commercial and Financial Chronicle, assuming that bonds were selling for 104 and that the premium should be written off in four years, claimed that

¹Ibid., 1900, p. xxxiv.

²Ibid.

³Ibid.

⁴John Jay, History of Banking (New York, 1900), p. 150.

⁵Report of Comptroller of the Currency, 1875, p. xviii.

⁶Ibid., 1877, p. xx.

a national bank would lose \$91.00 a year on \$104,000 invested in bonds.¹ In February, 1888, Vice-President Gage of the First National asserted that with 4 per cent bonds selling for 125 there was an actual loss in the issue of notes. He advocated the replacement of the four per cent bonds with bonds to yield two and one-half per cent, which would sell around par; and a reduction in the tax on bank notes.² In summary, the disappearance of the profit accruing to the issue of bank notes made the banks only too glad to reduce their circulation in accordance with the law of 1882.

National banking statistics.--Chart I at the close of this summary shows the number of national banks in Illinois during this period. During the late 1860's the number was approximately 80 but after 1870 there was a gradual but steady increase and the figure stood at 182 in 1888.

Chart II shows total resources of Illinois national banks which are the best single index of banking development. This chart shows Chicago and the area outside Chicago. It will be noted that in 1866 this item stood at 44 million dollars of which about 50 per cent was in Chicago; in 1876 it was 83 million dollars with 48 per cent in Chicago; and in 1888 the total was 180 million dollars with 63 per cent in Chicago.

Only eleven national banks in Illinois failed from 1863 to 1888.³ For this rather remarkable showing there are two explanations: the high standards of the system, particularly with respect to capital requirements and the leniency of the comptroller in putting in the "voluntary liquidation" column banks that might have been regarded as failures.

Five failures occurred in 1876 and 1877, the most in any two years in the period we are considering. In general, these failures were attributable to the depression of the middle 1870's; and, in particular, to the shrinkage in Chicago real estate values after 1873.⁴

¹Commercial and Financial Chronicle, March 24, 1883, p. 323.

²Chicago Tribune, February 5, 1888, p. 2.

³Report of Comptroller of the Currency, 1889, I, 194 ff.

⁴Centennial History of Illinois, IV, 289.

State Banking from 1863 to 1888

General survey with emphasis on legislation.--A law passed in 1851 established a free banking system in Illinois with bank notes secured by the bonds of the state of Illinois and other states. This system collapsed with the coming of the Civil War because the Illinois banks had pursued the policy of securing their bank notes with cheap southern bonds. The law of 1861, authorizing only United States and Illinois bonds as coverage for notes, came too late to save the situation.¹

The auditor in his report of December 1, 1862, stated that all but seventeen of these banks had been put in liquidation for failure to furnish additional security to offset depreciation of southern securities. He stated further that five new banks had complied with the law of 1861 and had issued \$51,945 worth of notes secured by Illinois and United States bonds.²

In 1865 the legislature abolished the offices of the three banking commissioners and transferred their duties to the auditor of public accounts. When this action was taken there were still in operation twenty-three banks with a circulation of \$199,324, secured almost entirely by Illinois 6 per cent bonds.³ The federal tax of 10 per cent, going into effect August 1, 1866, reduced the notes in circulation to \$35,046 by November 30, 1866.⁴

The federal tax on state bank notes led to a modification of the law the following year. It was provided that the existing state banks of issue might reduce their capital stock to \$5,000 and continue the banking functions other than issue. No more banks of issue might be organized.⁵

To facilitate the retirement of the remaining state bank notes the law carried a provision that a bank might withdraw its securities upon the filing of a bond with the auditor, equal to twice its notes in circulation, guaranteeing that it would redeem its notes in Chicago, at the auditor's office, and over its own

¹William H. Harper and Charles H. Ravell, Fifty Years of Banking in Chicago (Chicago, 1907), p. 91.

²Bankers' Magazine, XXVI, 390.

³Reports of Session, Senate, 1867, p. 115.

⁴Ibid. ⁵Laws of Illinois, 1867, p. 49.

counter.¹ The bond was to extend five years and the auditor was to publish a notice in a daily paper in Chicago and Springfield warning the holders of notes that they must present their notes within five years.²

Needless to say, this law got immediate results and the auditor in his report of December 1, 1868, announced that only two banks then doing business had securities on deposit.³ In his report of 1873 the auditor stated that the last bank, the Cumberland County Bank, had withdrawn its securities in accordance with the act of February 28, 1867.

We must now retrace our steps to consider the special bank charters granted by the legislature in 1865, 1867, and 1869. Special charters were in vogue during the decade following the Civil War as few states had general banking codes.⁴

The process of issuing special charters began in Illinois in 1865 when the legislature chartered three banks: the Farmers and Mechanics Bank of McHenry County, the East St. Louis Real Estate and Savings Bank, and the Farmers and Mechanics Bank of Knox County.⁵

In 1867 twenty-five charters were granted.⁶ While these charters were a heterogeneous assortment, a detailed analysis makes it possible to make certain generalizations. With respect to liability of stockholders, twelve were compelled to accept double liability. In the case of eight banks the stockholders were given pro rata liability. With slight variations this part of the charter read as follows: "Whenever default has been made in the payments of any debt or liability contracted by the corporation, the stockholders shall be individually liable, pro rata, according to the shares of stock held by them."⁷ No limit was placed on this liability. In four charters there was no mention of liability and in one case it was stated that the stockholders were liable for the amount of subscribed stock.⁸

¹Ibid.

²Ibid.

³Reports to General Assembly, 1869, I, 132, 43.

⁴George Ernest Barnett, State Banks and Trust Companies Since the Passage of the National Bank Act (Washington, 1911), p. 23.

⁵Illinois Private Laws, 1865, pp. 57, 59, 61.

⁶Ibid., 1867.

⁷Ibid., p. 68.

⁸Ibid.

The real estate provisions were liberal. In twenty-one instances the banks were given power to buy, sell, or lease "so far as the same may be necessary to the full enjoyment of all the rights and privileges granted by the charter"--or words to that effect.¹ Two banks were given power to operate real estate agencies and one was definitely empowered to improve real estate, while in only one case was no mention made of real estate.²

The rate of interest which the bank might charge was limited to 10 per cent in five charters; thirteen banks were allowed to pursue a different course. Twenty-one banks were given more liberal real estate powers; in addition to the right to purchase and hold such real estate as was necessary to carry on its banking business, these banks might purchase real estate at any sale to enforce its security for debts due.³ In the other five charters there was no restriction whatever.⁴

With respect to the granting of banking powers, the charters were excessively loose. All of the banks were given general banking privileges such as the power to "loan money," to "receive money on deposits and pay interest thereon," and to "buy and sell negotiable securities." Moreover, fifty-one were definitely given the right to establish savings accounts, whereas nine were definitely denied this privilege. In view of the general powers enumerated above, the prohibition of savings deposits seems illogical, unless it was an attempt to deter the nine banks from doing an exclusively savings banking business. In the other seven charters there was no stipulation concerning this matter.⁵

All but eight of the sixty-seven banks chartered in 1869 were permitted to exercise trust functions. This compares with thirteen banks (out of twenty-five) that were granted similar powers in 1867.⁶ The powers granted the La Salle County Savings Loan and Trust Company may be regarded as typical: the company "may accept and execute all trusts, whether fiduciary or otherwise, as shall be committed to it by any person or persons, or by the order of any court or tribunal."⁷

¹Ibid., p. 56.

²Ibid., pp. 65-120.

³Ibid., pp. 60-226.

⁴Ibid.

⁵Ibid.

⁶Ibid., pp. 56-120.

⁷Ibid., p. 65.

This orgy of granting special charters came to an abrupt end with the adoption of the constitution of 1870. To understand the action of the convention it is essential to have an idea of the attitude of the public toward banking. For years after the war antibank feeling was intense. D. W. Lusk asserts that many of the older citizens of Illinois expressed the opinion that they would as soon think of the re-enslavement of the colored man as to consider returning to a state banking system.¹ Speaking before a World's Fair audience in 1894, Lyman J. Gage said that the sentiment in the convention of 1869-1870 was that the people of the state were "tired of a state system (of banking) and had been injured and vexed by its operation."²

But there was also a feeling that the national banking system was not permanent, for it was expected that the federal bonds would be paid, thus causing the retirement of the national bank notes. On this point, Mr. Tincher, chairman of the committee on banking, made the following statement to the convention: "But for fear that the existing banking law of the government may sooner or later be disposed of, and we may want to organize banks in our state, we thought best to make a report simply placing a necessary amount of limitations on the legislature, that they might not at any time inaugurate a state banking system that might prove as disastrous as the banking law under which we organized our banks in 1851."³

The committee on banking and currency, reporting on April 29, 1870, presented eight distinct propositions to the convention.⁴ This was a concession to prejudices that harked back to the 1840's.

The second section specified that no act of the legislature authorizing banking corporations "whether of issue, deposit, or discount, should go into effect until submitted to the people and passed by a majority vote."⁵ It had always been a matter for debate whether the referendum clause of the constitution of 1848

¹David W. Lusk, Eighty Years of Illinois Politics and Politicians (Springfield, 1889), p. 408.

²Lyman J. Gage, Banking in Illinois (Chicago, 1893), p. 62.

³Debates and Proceedings, Constitutional Convention, 1869-1870, p. 1678.

⁴Ibid., p. 1553.

⁵Ibid.

referred to banks other than banks of issue. It was not until 1879 that the Supreme Court of Illinois in the case of People vs. Loewenthal decided that only banks of issue were affected by the referendum mandate.¹ There was no ambiguity in the section quoted above.

The third provided that every stockholder should be liable, "over and above the amount of stock by him held, to an amount equal to his respective shares so held, for all its liabilities accruing while he remains such stockholder."² This definitely established the principle of double liability.

Section four contemplated the end of national banking and the re-establishment of state banks of issue; it decreed that the "suspension of specie payments by a banking institution, on its circulation, created by the laws of the state shall never be permitted or sanctioned." A pious pronouncement; but, as events proved, meaningless.³

The fifth section required that banks then organized or organized in the future shall make "a full and accurate statement of its affairs, which shall be certified to under oath by one or more of its officers."⁴

After due deliberation these propositions were adopted without great controversy. Mr. Pierce of Grundy County moved to make stockholders liable to an unlimited amount but the motion lost.⁵ The foregoing five sections were adopted by a decisive vote of 43 to 12. As the new constitution was finally drawn up, the first two sections were combined to compose Article XI, Section 5; the third made up Article XI, Section 6; and the fourth and fifth were united to make Section 7.⁶

Sections six and seven of the report of the committee dealt with taxation and were not carried in the convention.⁷ Section six simply affirmed that the "paid-up capital of such associations (state banks) shall be taxed in the same manner as other property." Section seven applied the same principle to the capi-

¹Illinois Reports, XCIII, 191.

²Debates and Proceedings, Constitutional Convention, 1869-1870, p. 1553.

³Ibid.

⁴Ibid.

⁵Ibid., p. 1679.

⁶Ibid., p. 1877.

⁷Ibid.

tal actually used by private banks. These two sections were stricken out on the theory that such matters were the proper sphere for the committee on revenue rather than for the committee on banking.¹

Section eight of the committee's report, like the fourth, looked forward to the demise of the national banking system. To quote it in toto:

If a general banking law should be enacted, it shall provide for the registry and countersigning, by an officer of the state, of all bills or paper credit designed to circulate as money; and to require security to the amount thereof, to be deposited with the state treasurer, in United States or Illinois stocks, to be rated at 10 per cent below their par value; and in case of depreciation of said stocks to the amount of 10 per cent on the dollar below par, the bank or banks owning such stocks shall be required to make up said deficiency by depositing additional stocks; and said law shall also provide for the recording of the names of all stockholders of such corporations, the amount of stock held by each, the time of any transfer and to whom.²

When pressed Mr. Coolbaugh admitted that he regarded section eight as a refuge "on which the people may stand when the Democrats come into power."³ Referring to the national banking system Mr. Coolbaugh said:

It is possible that before many years the existing national banking law, which I hold has been a great national blessing, may cease to exist. It is known to every public man that a large portion of the people of this country are opposed, and I think unjustly opposed to that system.⁴

After considerable debate section eight was agreed upon and became Section 8 of Article XI in the final constitution.⁵

Article I, Section 1 of the new constitution put an end to special charters for banks or any corporation for profit. It read as follows:

No corporation shall be created by special laws, or its charter extended, changed, amended, except those for charitable, educational, penal or reformatory purposes, which are to be and remain under the patronage and control of the state, but the General Assembly shall provide, by general laws, for the organization of all corporations to be created.⁶

Quite obviously, the benefits of this constitution were largely negative. Special charters were banned and the legislature was authorized to pass laws setting up a system of examination and reports and general incorporation laws--but the legisla-

¹Ibid., p. 1687.

²Ibid.

³Ibid., p. 1681.

⁴Ibid., p. 1680.

⁵Ibid.

⁶Ibid., p. 1877.

ture was not compelled to do so.

State banking statistics.--This period is characterized by a dearth of reliable statistics concerning state banks. Barnett estimates the number at 34 in 1878.¹ Thereafter the number, according to Barnett, declined until in 1883 there were only 27 state banks in Illinois. After this date a slight increase occurred and in 1888, there were 31 state banks in Illinois.²

¹Barnett, op. cit., p. 248.

²Ibid.

CHAPTER II

BANKING IN ILLINOIS, 1889-1913

National Banking in Illinois, 1889-1913

Changes in national banking legislation.--In Chapter I it was noted that the national banking system was established with exceedingly high standards with respect to capital requirements and with respect to liquidity of loans. The act of March 14, 1900, signalized the retreat from the \$50,000 minimum capital requirement and the Federal Reserve Act of December 23, 1913, by permitting real estate loans, seriously impaired the liquidity of national banks.¹ The latter concession will be discussed in detail in the next chapter.

More specifically, the act of March 14, 1900, permitted the organization of national banks with capital of \$25,000 in cities of 3,000 population or less.² Now it is true that the state banking laws were much more lenient with regard to capital. Whereas the New England and eastern states in general required at least \$50,000 capital, the middle western states including Illinois demanded from \$10,000 to \$25,000 capital of banks in small towns.³

Needless to say, the establishment of national banks in small towns was stimulated. From March 16, 1900, to October 31, 1902, 49 national banks were organized in Illinois with a capital of less than \$50,000.⁴ While there were 180 national banks in Illinois, exclusive of Chicago and five lesser financial centers,⁵ in 1899, the number increased to 313 by 1905 and to 413 by 1913. At the same time the number in Chicago decreased from 16 in 1899

¹Report of Comptroller of the Currency, 1900, I, xxix; Ibid., 1914, I, 11.

²Ibid., 1900, I, xxix.

³Barnett, op. cit., p. 29.

⁴Report of Comptroller of the Currency, 1902, p. 15.

⁵Bloomington, Peoria, Quincy, Rockford, and Springfield.

to 9 in 1913.¹

Broadly viewed, the conclusion is inescapable that the change in capital required was a mistake of the first magnitude. Instead of remaining an ideal for the state systems to strive to attain, the national banking system descended to approximately the level of its competitors. It is indeed significant that the comptroller in his report for 1932 cited this act as one of the factors which caused the number of banks to treble from 1900 to 1920, thereby contributing to the debacle of the early 1930's.² The comptroller pointed out that 66 per cent of all banks that suspended from 1920 to 1932 had capital under \$50,000.³ This is strong evidence that there were too many small banks.

The other changes effected by the law of March 14, 1900 dealt with national bank notes. It repealed the provision of the law of 1882 which stipulated that, if a national bank reduced its circulation by depositing lawful money with the comptroller, it could not increase its circulation for six months.⁴ The year before, in 1899, the comptroller declared that this change was "necessarily precedent to any reform in the national currency which provides for greater elasticity."⁵

The act of March 14, 1900, also permitted the issue of national bank notes to the par value of the deposited bonds.⁶ The original law had limited the issue of national bank notes to 90 per cent of the government bonds deposited and as early as 1890 the comptroller recommended the change that was effected in 1900.⁷ In 1893 Comptroller James H. Eckels asserted that, "no good reason can possibly exist at present for depriving the banks or the business interests of the country of the additional circulation which would be added by such an amendment."⁸

In 1899 Charles G. Dawes, then Comptroller of the Currency, made a similar suggestion, stressing the argument of elasticity and suggesting that the additional 10 per cent should be taxed 2

¹Data compiled from Reports of Comptroller of the Currency.

²Page 1. ³Ibid.

⁴Report of Comptroller of the Currency, 1900, I, xxix.

⁵Ibid., 1899, I, xviii.

⁶Ibid. ⁷Ibid., 1890, I, 6. ⁸Ibid., 1893, I, 20.

or 3 per cent to make the bank notes so issued circulate only temporarily.¹ This last suggestion was not incorporated in the law.

Finally the act of March 14, 1900, reduced the semiannual tax on national bank notes from one-half to one-fourth of one per cent, if secured by consols of 1930.² This also had been recommended by the comptroller in 1890.³

Quite patently, the refunding of the five, four, and three per cent bonds of 1904, 1907, and 1908 respectively, into two per cent consols of 1930 was designed to reduce the premium on the bonds. Thus in 1899 the four per cent bonds of 1907 sold for \$112.62. Assuming that the circulation secured by these bonds (90 per cent of par) could be loaned at 6 per cent, and making allowance for such items as the cost of maintaining the five per cent redemption fund, the one per cent annual tax, express charges, cost of plates, and the cost of a sinking fund to liquidate the premium on the bonds, the money invested in bonds was made to earn only 6.25 per cent a year.⁴ The changes in the law relative to national bank notes were designed to make the issue of notes more profitable.

The results were not precisely according to expectations, for by October 31, 1901 the 2's of 1930 were selling at 108.71. However, the government actuary calculated that money invested in these bonds to secure circulation would earn 7.73 per cent.⁵ Thus the slight reduction in the premium on bonds together with the lower tax and power to issue bank notes up to the par value of the bonds deposited, made the issue of national bank notes considerably more profitable. Another favorable factor was the relatively long time (1930) in which to write off the premium on the bonds.

That the changes of 1900 were effective in increasing national bank circulation is not to be gainsaid. This enlargement may be studied best in the five cities in Illinois ranking next to Chicago because there was practically no change in the number of banks (22 in 1899 and 21 in 1913).⁶ The circulation of these banks

¹Ibid., 1899, I, xiii.

²Ibid., 1900, I, xxix.

³Ibid., 1890, I, 6.

⁴Ibid., 1899, I, 350.

⁵Ibid., 1901, I, 308.

⁶The cities are Bloomington, Peoria, Quincy, Rockford, and Springfield. These data are compiled from Reports of the Comptroller of the Currency.

increased from \$1,148,000 in 1899 to \$4,353,000 in 1913--an increase of 280 per cent. The deposits of these banks during the same period went up from \$15,938,000 to \$34,102,000 or 113 per cent. Finally the capital, surplus, and profits increased from \$5,823,000 to \$10,045,000 or 73 per cent.

In Chicago, circulation increased from \$674,000 in 1899 to \$14,943,000 in 1913--an astounding increase. In the rest of Illinois the growth was from \$5,214,000 to \$22,962,000 during the same period; but, quite manifestly, this was caused in no small degree by the establishment of national banks in small towns. But making all due allowances, the increase in the circulation of Illinois national banks is most impressive. Rising interest rates tended to increase the profit accruing to the issue of notes.

National banking statistics.--Referring to Chart I at the close of this summary, it will be noted that there was a moderate increase in the number of national banks in Illinois from 188 in 1889 to 217 in 1899; that the increase after that date was great; and that by 1913 there were 459 national banks in Illinois.

Chart II depicts the growth in the total resources of Illinois national banks. Beginning with a total of 191 million dollars in 1889, this item increased to 346 million dollars in 1899 and 863 million dollars in 1913. Chicago assumed a more commanding position until in 1899 when this city had 70 per cent of the total resources of all Illinois national banks. After 1900 with the establishment of more national banks in the smaller cities, this percentage declined. It stood at 63 per cent in 1913.

Only eleven failures occurred among Illinois national banks during the period under survey. One occurred in 1890; four in 1893; two in 1896; three in 1905; and one in 1909.¹

State Banking in Illinois, 1889-1913

State banking legislation.--Having lagged behind her neighbors for two decades, Illinois in 1887 passed three distinct banking laws.² There had been considerable agitation in the press.

¹Report of Comptroller of the Currency, 1931, p. 499.

²Barnett, op. cit., p. 27.

In Chicago, the Chicago Tribune was the prime exponent of better banking legislation. In February, 1887, after accusing the banks of contributing money to defeat needed legislation, the Chicago Tribune said:

The truth is that the laws of this state in regard to banks are altogether defective and shamefully loose. There is no provision for examination and publication. Some states have adopted in substance the national bank act in this particular, applying it to both commercial and savings banks, and that is what Illinois should do.¹

A general banking bill and a bill providing for mutual savings banks were passed by the legislature during the spring of 1887. Because the savings bank bill was declared unconstitutional, we shall dispose of that first. This bill, entitled "an act to provide for the organization of Savings Societies or Institutions for savings, for their supervision and for the administration of their affairs," was introduced into the lower house on January 28, 1887, and was passed by that body on April 7, by a vote of 104 to 0.² Going to the Senate, it was passed on May 6, the vote being 33 to 1.³

The law was pronounced by the Illinois State Journal "one of the best pieces of work of the session."⁴ In essence the new law sought to establish mutual savings banks of the type that was flourishing in the East.

According to this law, any thirteen or more persons, all citizens of the state and two-thirds living in the county where it was proposed to locate the society, might execute articles of association.⁵ These trustees were required to hold unencumbered real estate in that county worth \$100,000. No trustee was permitted to draw a salary or borrow from the bank. They were to elect a president and two vice-presidents and any other employees deemed necessary.⁶

Money deposited was to be invested only as follows: (1) United States government securities and securities of the state

¹February 12, 1887, p. 4.

²House Journal, 1887, pp. 156, 613.

³Senate Journal, 1887, p. 724.

⁴May 12, 1887, p. 3.

⁵Laws of Illinois, 1887, pp. 77 ff.

⁶Ibid.

of Illinois, (2) securities of any state which had not defaulted for three years, (3) municipal obligations of cities in Illinois, (4) bonds of any city or county in twelve enumerated states, (5) stock of any bank or trust company in Illinois, organized under state or federal laws, (6) first lien railroad bonds provided that dividends of 5 per cent had been maintained for five years, and (7) bonds and mortgages secured by real estate worth at least twice the amount so loaned.¹ There being no capital stock, profits were to be divided among the depositors.²

The restrictions on real estate holdings were severe. Only buildings for the transaction of business might be owned permanently and if real estate was purchased at foreclosures to protect the bank it might be held only five years.³

The act contained no provision for its submission to popular vote in accordance with Article XI, Section 5, of the Constitution of 1870; consequently, Governor Oglesby was inclined to veto the measure.⁴ However, Charles Hitchcock and other eminent lawyers took the position that this was a "trust for savings" and not an ordinary banking bill. In support of this view the following facts were emphasized: no provision was made for capital stock; the trustees had no capital in the business; the investments were clearly specified; and, finally, no power was granted to discount commercial paper.⁵

The governor, only partly convinced by these representations, permitted the bill to become a law on June 15, 1887, without his signature.⁶

In accordance with the provisions of this act two associations were immediately organized--the Decatur Mutual Savings Association and the Chicago Society for Savings.⁷ The attorney general, seeking to test the constitutionality of the law, instituted proceedings in the state courts. In a decision filed September 27, 1888, the Supreme Court of Illinois declared that "whereas said act seeks to confer banking powers and was not adopted by a vote of the people, it is in conflict with Section 5 of Article XI of

¹Ibid.

²Ibid.

³Ibid.

⁴Chicago Tribune, May 15, 1887, p. 4.

⁵Ibid.

⁶Ibid., June 16, 1887, p. 2.

⁷Auditor's Report, 1888, p. xli.

the Constitution and is therefore void."¹

The court was unable to grasp the finespun distinction between "trusts for savings" and general banking. The court pointed out that the new institutions had the right to receive deposits which is clearly a banking function and the power of discount was inferred from the power definitely given to buy "interest bearing notes."²

That the bill did not include a provision for ratification by the people seems colossal stupidity on the part of its supporters. The mutual savings type that was so popular in the East might easily have flourished in Illinois--but speculation is futile.³

During the next session in 1889, another attempt was made to give Illinois non-profit savings institutions. A bill almost identical to the one just discussed was defeated twice in the House on May 10, 1889, and May 17, 1889.⁴ The corresponding Senate bill was tabled on March 28, 1889.⁵

Again in 1891 determined efforts were made. A law providing for mutual savings banks was passed by the Senate 29 to 9.⁶ The House permitted the bill to die in committee.⁷

The fate of this bill caused a violent outburst from the Chicago Tribune. It averred: "The defeat of this bill was due to the fact that certain Chicago banks thought it would interfere with profits by giving the working classes a better way of investing their small savings."⁸ This newspaper went so far as to assert that the bill made a better showing in the Senate because that body had a smaller percentage of bribe-takers.⁹ No further attempt was made to give Illinois a mutual banking system.

We return now to the banking bill that became effective, and which, with a few changes, still functions as the banking code

¹Ibid.; Illinois Reports, CXXV, 592.

²Ibid. ³Chicago Tribune, July 3, 1887, p. 4.

⁴House Journal, 1889, pp. 185, 866.

⁵Senate Journal, 1889, p. 491.

⁶Ibid., 1891, p. 874.

⁷House Journal, 1891, p. 1132.

⁸June 17, 1891, p. 4. ⁹Ibid.

of Illinois. On February 15, 1887, Senator A. J. Bell of Peoria introduced Senate Bill No. 251: "An act to establish a general banking law."¹ After being referred to the banking committee, it was recommended for passage on March 15, 1887.² It was passed on April 12 by a vote of 27 to 0.³

The House, yielding its own banking bill, passed the bill with amendments on June 13 by a vote of 108 to 5.⁴ One amendment changed the title to "An act concerning corporations with banking powers"; another added the power to execute trusts; finally, a third provided that, in the event of failure to elect directors at the time stipulated in the bylaws, the old directors shall continue in office until their successors are elected.⁵

On June 14, 1887, the Senate voted to concur in these amendments; whereupon the bill went to the governor who signed it on June 16, 1887.⁶

Because of the importance of this banking code, a somewhat detailed discussion is in order.

Section 1 provided that the act was effective after ratification by the people. Section 2 specified that persons desiring to organize banks should apply to the auditor of public accounts, stating names of promoters, place of business, and amount of capital.⁷

Section 3 covered the opening of stock subscription books after receipt of authorization from the auditor and the election of directors after the stock was fully subscribed. Directors were elected by a majority of the shares voting. However, stockholders were permitted "to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares of stock." Of course this cumulative voting was optional.

¹Senate Journal, 1887, p. 252.

²Ibid., p. 406.

³Ibid., p. 573.

⁴House Journal, 1887, p. 1219.

⁵Ibid., p. 1065.

⁶Senate Journal, 1887, p. 1069; Illinois Laws, 1887, p. 89.

⁷Illinois Laws, 1887, p. 89.

Section 4 enumerated the duties of the directors, such as appointing officers, fixing salaries, setting up and maintaining proper records and providing the auditor with reports. As already noted, it was prescribed that the old directors shall continue in office until their successors are elected.¹

Section 5 provided that the auditor shall issue a certificate permitting the bank to start business when satisfied that the capital is paid in.

In Section 6 double liability of stockholders was established. It was required that a list of stockholders be filed with the recorder of deeds of the county in which the bank was located. Stockholders were released from liability on stock only after the transfer of stock had been so recorded.²

This clause was declared void by the Supreme Court in 1890 in the case of Dupee vs. Swigert. The court held that Section 6 conflicted with Article XI, Section 6 of the constitution of the state.³ According to this decision a transfer of stock, duly recorded, did not release the stockholder from liability for contracts entered into while he was stockholder.⁴

Reports from all banks, new and old, were prescribed in Section 7. The auditor should call for reports at least every three months and reports must be submitted in five days. There was a penalty of \$100 a day for late reports.⁵

Section 8 gave the auditor the right to appoint "suitable person or persons, to examine the bank at least once a year." It was further provided that the examiner must not be connected with the bank and should be paid \$10.00 a day.⁶

Section 9 declared the banks to be "bodies corporate and politic" that "may sue and be sued." They were authorized to own the real estate in which to do their banking business but any real estate acquired in the collection of debts might be held not longer than five years.⁷

Section 10 limited the liability of one borrower to one-tenth of the paid-in capital of the bank. Following the National Bank Act, "the discount of bills of exchange drawn against actu-

¹Ibid., p. 90.

²Ibid.

³Illinois Reports, CXXVII, 494.

⁴Ibid.

⁵Ibid.

⁶Ibid.

⁷Ibid.

ally existing values" and "the discount of commercial or business paper actually owned" were not included in the limitation.¹

Section 11 gave the capital requirements--namely, capital not less than \$25,000 in cities not over 5,000 and capital not less than \$50,000 in cities not exceeding 10,000. Through an oversight no provision was made for cities with more than 10,000 population.²

This section also provided that if the capital of a bank should become impaired, the auditor shall order the president either to make an assessment or to reduce the capital if this would not reduce the capital below the requirements for a town of that size. In the event that the capital should remain impaired for thirty days after notice was given, the auditor must sue each stockholder or file a bill in circuit court for the appointment of a receiver.³

Section 12 concerned the procedure for changing the name of a bank, or the place of business, or the number of directors. This section is important principally because it has the implication of branch banking. It stated that a general notice of the time and place and object of meeting at which the proposed change would be discussed should appear "in some newspaper printed in or nearest to the county in which the principal business office of said corporation is located."⁴ The controversy concerning branch banking will be discussed later.

This section also subjected the banks already existing under special charter to all the requirements of the act.⁵

Section 13 dealt with consolidations. After receiving complete proceedings, the auditor would issue a certificate authorizing the company to proceed.

Section 14 validated all changes in name and place of business and consolidations that had been made in accordance with the act of March 26, 1872.⁶ This act had never been submitted to the people and there had always been a question of the validity of changes made under its provisions.⁷

Section 15 provided for the voluntary liquidation of state banks under the supervision of the auditor. Section 16, the final

¹Ibid., p. 92.

²Ibid.

³Ibid.

⁴Ibid.

⁵Ibid.

⁶Ibid.

⁷Chicago Tribune, June 23, 1887, p. 4.

section, provided that the act should be submitted to the people at the next election.¹

The bank code came to a vote on November 6, 1888. Apparently it received little attention. Fearing that the new banking law might fail to pass through indifference, the Chicago Economist affirmed that "neither politicians nor people have paid much attention to it, and it is only because some of the more thoughtful citizens have recently dragged it before the voters that it has commanded any notice."²

The banking act was approved by a majority of 110,773.³ As the majority in Cook County was approximately 100,000 it carried the rest of the state by only 10,000. The larger cities in general were for the new legislation and the country districts were opposed.⁴

Upon the advice of the attorney general, the auditor announced late in November, 1888 that no new banks might be organized in Chicago or Peoria, for the bill did not provide for banks in cities of 10,000 population or more.⁵

The session of the Assembly meeting early in 1889 proceeded to correct this and other defects. Senate Bill No. 389, amending Sections 1, 6, and 11 was passed by the Senate on May 3, by a vote of 83 to 1.⁶

Section 1 was amended so as to define more clearly the powers of state banks. It was declared lawful for banks to organize, "for the purpose of discount and deposit, buying and selling exchange, and doing a general banking business, excepting the issue of bills to circulate as money and such banks or banking associations shall have the power to loan money on personal and real estate security and to accept and execute trusts."⁷ No mention was made of savings deposits but it has always been assumed that "deposit" covered both demand and savings.

Section 6 was amended to provide that each director must own at least ten shares of stock of \$100 each.⁸ This amendment

¹Ibid. ²October 20, 1888, I, 4.

³Chicago Tribune, November 10, 1888, p. 2.

⁴Ibid. ⁵Ibid., November 26, 1888, p. 4.

⁶Senate Journal, 1889, p. 687; House Journal, 1889, p. 1015.

⁷Laws of Illinois, 1889, p. 58. ⁸Ibid.

was never effective because it was never submitted to the people for ratification. In 1907 a similar amendment was passed which was ratified by popular vote in November, 1908.¹ The other two changes were submitted and were in force November 29, 1890.²

An amendment passed in 1897 put teeth into Section 10, the section that limited loans to 10 per cent of paid-in capital. The amendment definitely made the contract "payable according to the terms" and made the directors "liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person shall have sustained in consequence of such violation."³

More extensive were the modifications enacted in 1907. These modifications were due largely to pressure from the Illinois Bankers Association. At a meeting of the executive committee of this organization at Springfield on September 26, 1906, a resolution was passed instructing the chairman of the executive committee to appoint a committee of five state bankers to prepare and present a bill to the approaching session of the legislature.⁴ This committee evolved a bill designed to correct the defects of the banking law. This bill, which was introduced by H. W. Austin of Cook County, was duly passed by both Houses and approved by the governor on June 3, 1907.⁵

Section 4 was amended to require that directors own at least ten shares of stock free from any lien or incumbrance. We have seen that a similar amendment was made in 1889 but was never ratified by the people. Another addition to this section made any officer or director, guilty of making a false statement to the auditor or to the bank examiner, liable to a prison term of from one to ten years.⁶

¹Ibid., 1907, p. 52; Bankers' Magazine, February, 1909, LXXVIII, 154.

²Laws of the State of Illinois Concerning Banks and Trust Companies (1919), pp. 3, 5.

³Illinois Laws, 1897, p. 87.

⁴Proceedings of the Seventeenth Annual Convention, Illinois Bankers Association (1907), p. 64.

⁵Ibid.; Laws of Illinois Concerning Banks and Trust Companies (1919), p. 3.

⁶Laws of Illinois, 1907, p. 53.

Section 5 was modified to give the auditor power to refuse to issue a charter if he was not satisfied with the "personal character and standing" of the promoters or if he had reason to believe that the bank was being organized "for any purpose other than that contemplated by this act."¹ It is to be noted that lack of need for a new bank was not a reason for withholding a certificate of authorization.

The provisions of Section 10 regarding loans to one borrower were relaxed somewhat. The new limit was 15 per cent of capital plus 15 per cent of surplus, not counting undivided profits. However, the absolute limit was 30 per cent of paid-in capital.² There can be no doubt that this change was designed to give state banks an advantage over national banks whose limit was still 10 per cent of capital. However, in 1915 this change in Section 10 was invalidated by the Supreme Court of Illinois because it was introduced into the act by a conference committee report and was never printed as required by the constitution.³ This did not affect the other changes made in the act of 1907.⁴

Section 11 was strengthened in that the auditor was given definite power to go to court to demand a receivership in the event of insolvency, impairment of capital, or fraud.⁵

Such was the banking code of Illinois as modified by later amendments. Quite patently, the outstanding defect was the lack of any provisions for reserves against deposits. Where conservative banking traditions prevail reserve requirements may be entirely superfluous; but such was not the case in Illinois--quite the contrary.

State banking statistics.--The rapid increase in the number of state banks in Illinois is shown by Chart I at the close of this summary. From 26 in 1889 the number increased to 164 at the turn of the century and in 1913 the number was 692, a most impressive showing.

Just as significant is the increase in total resources shown in Chart III. The ascent was steady from 120 million in 1894 to 224 million dollars in 1900. Thereupon the rise was even

¹Ibid., p. 53.

²Ibid., p. 54.

³Illinois Reports, CCLIX, 518.

⁴Ibid.

⁵Laws of Illinois, 1907, p. 54.

more pronounced and in 1913 total resources of state banks reached 866 million dollars. The chart also shows the dominating position of the Chicago state banks which had 62 per cent of the total in 1894 and 72 per cent in 1914.

Failures of state banks presented no serious problem as only thirteen were recorded during this period. The highest number for one year was three in 1896; one failure occurred in 1892, 1897, 1898, 1899, 1900, 1902, 1904, 1906, 1907, and 1909; and no failures occurred during the other years.¹

¹Data compiled from Reports of the Comptroller of the Currency.

CHAPTER III

BANKING IN ILLINOIS AFTER 1914

National Banking in Illinois After 1914

The advent of the Federal Reserve System.--Ever since its inception the national banking system had manifested two major defects: the carrying of reserves in the central reserve cities involved the constant danger of a money famine when the banks, in time of panic, demanded their funds; and there was no rediscount market to which the banks might turn in time of emergency or to meet their seasonal requirements.¹ Every panic threw these deficiencies into high relief, but it was not until 1913 that corrective steps were taken.

The bill to establish the Federal Reserve System passed the House on September 18, 1913.² The bill as revised and amended was reported to the Senate on November 22, 1913, by Senator Owen.³ After being passed by that body with several amendments on December 19, 1913, it was referred to a conference committee and was finally passed by the House on December 22 and by the Senate a day later on which day it was also signed by the President.⁴

Quite patently, an extensive discussion of the Federal Reserve Act lies beyond the purview of this study. The comptroller summarized the main objects of the act as follows: (1) to provide an elastic currency; (2) to mobilize the reserves of the country; (3) to establish a discount system whereby banks can shift their burden to other institutions; (4) to establish a system of collecting checks at par; (5) and to make possible lower reserve requirements.⁵ The law provided for twelve reserve banks, equal in power, and co-ordinated by a Federal Reserve Board, national banks were compelled to join or forfeit their charters while membership was optional with state banks.⁶

¹Report of Comptroller of the Currency, 1914, p. 9.

²Ibid., p. 106.

³Ibid., p. 116.

⁴Ibid., I, 117-34.

⁵Ibid.

⁶Ibid.

Member banks in central reserve cities were required to maintain reserves of 18 per cent of demand deposits, six-eighteenths in its vaults and seven-eighteenths in the Federal Reserve Bank of its district and the rest either place.¹ Banks in reserve cities were to maintain reserves of 15 per cent of demand deposits distributed as follows: after a transitional period, five-fifteenths in their own vaults, six-fifteenths in their reserve banks, and the rest either place.² Other banks generally known as country banks, were to maintain reserves of 12 per cent of demand deposits. After the transitional period four-twelfths of this was to be kept in their own vaults and five-twelfths with their reserve banks and the balance either place.³ All member banks irrespective of size of city, were required to maintain a reserve of 5 per cent of their time deposits without specification as to where it should be kept.⁴ It will be noted that these changes might cause the big banks of Chicago and New York to lose their depository function to a considerable degree.

Three other changes must be stressed. Among the enumerated powers of the Federal Reserve Board was the power "to grant by special permit to national banks applying therefor, when not in contravention of state or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe."⁵

The inevitable had happened--national banks were to engage in the trust business without legal subterfuge.

Section 24 of the act not only granted power to make real estate loans but expressly authorized time deposits. To quote:

Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal Reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding 50 per cent of the actual value of the property offered as security. Any such loans in an aggregate sum equal to 25 per cent of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.⁶

The provision with respect to time deposits was not impor-

¹Ibid., p. 131.

²Ibid., p. 130.

³Ibid.

⁴Ibid.

⁵Ibid., p. 125.

⁶Ibid., p. 133.

tant; for the comptroller had not objected to time deposits although the law did not expressly provide for them. However, the permission for real estate loans was a distinct departure from the ideas of liquidity that prevailed in 1863 and had never been relaxed.

According to the Chicago Economist the Federal Reserve System was greeted with satisfaction by most national banks in Illinois and by tolerance in a few cases.¹ The Chicago Seventh Federal Reserve District included the northern two-thirds of Illinois; all of Iowa; the southeastern two-thirds of Wisconsin; the lower peninsula of Michigan; and the northern four-fifths of Indiana.²

Later federal banking legislation.--The act of June 21, 1917, made important changes in reserve requirements. Under this act all reserves must be carried with the federal bank of the district and the reserves for demand deposits were placed at 13, 10, and 7 per cent for central reserve, reserve, and non-reserve cities respectively.³ All member banks, irrespective of location, were required to carry reserves of 3 per cent against time deposits.⁴ The other changes effected in 1917 are not pertinent to this study.

The act of February 25, 1927, commonly known as the McFadden Act, permitted intra-city, not state-wide, branch banking to national banks in states which permitted it to state banks.⁵ This provision for branch banking did not apply to Illinois as that state had passed a law in 1923 definitely forbidding branch banking.⁶

Several other changes effected by the act of February 25, 1927, should be mentioned. Real estate loans were permitted up to 25 per cent of capital stock paid in plus 25 per cent of unimpaired surplus or up to one-half of savings deposits.⁷ For the

¹Chicago Economist, L (December 27, 1913), 1080.

²Report of Comptroller of the Currency, 1914, I, 136.

³Ibid., 1917, I, 164.

⁴Ibid.

⁵For reprint of the McFadden Act see the Federal Reserve Bulletin, March, 1927, pp. 181 ff.

⁶Laws of Illinois, 1923, p. 163.

⁷Federal Reserve Bulletin, March, 1927, p. 186.

first time banks in central reserve cities were permitted to make such loans and the new restriction with respect to location was "a radius of one hundred miles of the place in which such bank is located, irrespective of district lines."¹ The original provision in the Federal Reserve Act was that it must be within a radius of one hundred miles and in the same district.

Provision was also made for the direct merger of national banks with state banks.² Previously a state bank in order to merge with a national bank was required first to take out a national charter.³ Moreover, national banks in the suburban districts of cities of over 50,000 population were permitted to have capital of \$100,000 rather than \$200,000.⁴ Not only did this remove the disaffection on the part of national banks in the suburbs annexed to Chicago but also made suburban state banks eligible for the Federal Reserve System as they were compelled to have the same capital as national banks in the same city.⁵

Two other changes should be noted. The bond departments that had sprung up received recognition and legal standing. National banks were authorized to buy and sell "marketable obligations evidencing indebtedness in the form of notes and bonds."⁶ National banks were permitted to issue stock of par value of less than \$100; and directors, consequently, were required to own stock "the aggregate par value of which shall equal \$1,000."⁷ Illinois, taking her cue from Congress, made a similar change in 1929.⁸ The foregoing are the main provisions of the Act of February 25, 1927, as they applied to Illinois banks.

We now turn to the Banking Act of 1933 which was approved on June 16.⁹ The provisions concerning branch banking were relaxed to the extent of permitting state-wide branch banking on the part of national banks with capital of \$500,000 or more and

¹Ibid., p. 185.

²Ibid., p. 182.

³Report of Comptroller of the Currency, 1927, p. 3.

⁴Federal Reserve Bulletin, March, 1927, p. 183.

⁵Report of Comptroller of the Currency, 1914, p. 123.

⁶Federal Reserve Bulletin, March, 1927, p. 182.

⁷Ibid., p. 186.

⁸Laws of Illinois, 1929, p. 175.

⁹Federal Reserve Bulletin, June, 1933, pp. 385 ff.

subject to other restrictions but only in states authorizing branch banking.¹ Thus the status quo was maintained in Illinois.

Many important changes were made in the banking law of 1933. Of paramount importance was the correction of the blunder of 1900; for under the provisions of the 1933 act new national banks must have capital of \$50,000 in cities of 6,000 population or less.² It should be stressed that this applied only to new banks. In the case of cities of 6,000 to 50,000 population capital of \$50,000 was prescribed and \$200,000 in larger cities.³

Security affiliates were banned after one year and bond departments, after the same lapse of time, were permitted to purchase and sell securities only for the account of customers. Otherwise expressed--no underwriting was permitted. One exception was made in the case of government obligations.⁴

According to the law of 1933 banks may not pay interest on demand deposits, except in the case of public funds where interest is specified by law; and the Federal Reserve Board is empowered to regulate the interest on savings deposits.⁵ Stockholders of banks organized after June 16, 1933 were not subject to double liability.⁶

To safeguard against undue expenditures on buildings, banks may not spend more on bank premises, either directly or indirectly, than the capital stock of the bank.⁷ On the theory that large directorates are unwieldy, the number of directors of a national bank may not exceed twenty-five.⁸ Cumulative voting is permitted in the election of directors.⁹

Finally and most important was the provision for deposit insurance.¹⁰ This insurance was to be handled by the Federal Deposit Insurance Corporation whose capital was supplied by the federal treasury and the Federal Reserve banks. Banks participating in the plan were subject to unlimited assessments of one-fourth of one per cent of their deposits.¹¹ After July 1, 1936, only

¹Ibid., Secs. 5b and 23.

²Ibid., Sec. 17.

³Ibid.

⁴Ibid.

⁵Ibid., Sec. 11b.

⁶Ibid., Sec. 31.

⁷Ibid., Sec. 40.

⁸Ibid., Sec. 31.

⁹Ibid., Sec. 19.

¹⁰Ibid., Sec. 12.

¹¹Ibid.

members of the Federal Reserve System were to have their deposits insured.¹ Quite manifestly, this was to force state banks into the Federal Reserve System.

It may be noted in passing that the Illinois Bankers Association in a statement of policy branded the guaranty of deposits "a fraud upon the public." This attitude is typical of the extreme conservatism of that body.²

The above provisions for insurance of deposits were materially modified by the Banking Act of 1935, approved August 23.³ Because bankers had complained that they did not know the extent of their liability under the original deposit insurance law, it was provided that banks availing themselves of the insurance should pay one-twelfth of one per cent of their deposits to the Federal Deposit Insurance each year and that should be the limit of their liability.⁴ Far from reaffirming the provision that non-member banks join the Reserve System by July 1, 1936, or lose the benefits of insurance, the new law states that a non-member bank with deposits over one million dollars must join by 1941 or forfeit its insurance.⁵ It was decided that deposits should be insured only to \$5,000, which is also a retreat from the original provision.⁶

With respect to real estate loans there was further liberalization. To quote:

The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed or trust, or other such instruments under the terms of which the installments are sufficient to amortize 40 per centum . . . or more of the principal of the loan within a period of not more than ten years.⁷

The new regulation concerning the amount of real estate loans permissible is as follows:

No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired surplus fund, or in excess of 60

¹Ibid. ²Chicago Tribune, June 7, 1933, p. 31.

³See Federal Reserve Bulletin, September, 1935, pp.603 ff.

⁴Ibid., Sec. 101.

⁵Ibid. ⁶Ibid. ⁷Ibid., Sec. 208.

per centum of its time and savings deposits which ever is greater.¹

Thus it will be observed that there has been no tendency to revert to the principle of liquidity that obtained during the early years of the national banking system. The Federal Reserve Bulletin defended the changes rather convincingly on the following basis:

The liberalization of real-estate provisions will make it easier for the member banks to participate in the financing of building activity, the resumption of which is an essential factor in recovery. It is also in recognition of the fact that it is as proper for a member bank having a large volume of time deposits to make mortgage loans as to purchase long-time bonds the marketability of which, experience has shown, may be seriously impaired in a depression. The danger for banks is not in making real estate loans as such, but in making poor loans of any kind.²

Before leaving the Banking Act of 1935 we should note that under its provisions any national bank may terminate double liability of stockholders after July 1, 1937, by giving six months notice.³ It will be recalled that the act of 1933 ended double liability only with respect to shares issued after date of that act, June 16, 1933.⁴ Finally, we should bear in mind that the Board of Governors of the Federal Reserve System--such is the new designation of the old Federal Reserve Board--may change reserve requirements by a majority vote "in order to prevent injurious credit expansion or contraction," provided that prescribed reserves shall not be reduced below the old requirements or increased to more than twice such amounts."⁵

National bank notes.--The Federal Reserve Act quite properly contemplated the gradual retirement of national bank notes. The Act provided that new banks need not buy bonds and that established banks desiring to sell the bonds that secured their circulation might make application to the treasury of the United States and the reserve banks, acting under instructions from the Federal Reserve Board, would buy these bonds at the rate of 25 million dollars a year.⁶ This program was to be carried on for twenty years beginning two years after the passage of the act and the bonds so acquired might be used as security for Federal Reserve

¹Ibid.

²Ibid., p. 561.

³Ibid., p. 563.

⁴Ibid.

⁵Ibid., p. 560.

⁶Report of Comptroller of the Currency, 1914, I, 129.

bank notes or exchanged for other bonds of a higher yield.¹

There was little change in the circulation of the Illinois national banks from 1916 to 1930 except in Chicago. There the figure varied considerably from year to year with an upward tendency. The high point for Chicago was \$10,929,000 for 1930. This surprising figure was due to the fact that the National Bank of the Republic developed a circulation of approximately 6 million dollars during the late 1920's which was more than the rest combined.² The total for Illinois increased from \$28,364,000 in 1916 to \$36,879,000.

Because the consols of 1930 were callable that year, Secretary of the Treasury Mellon inclined to the view that the time was ripe to retire national bank circulation. A vigorous contrary position was taken by the Illinois Bankers' Association, asserting that "their (the national banks) privileges in the matter of currency should not be disturbed in any way, shape, or form."³

The bonds were not called in 1930 and in 1932 the volume of national bank notes was actually increased. The so-called Glass-Borah amendment to the Federal Home Loan Act, passed in July, 1932, provided that for a period of three years all government bonds yielding three and three-eighths per cent or less might be used as coverage for national bank notes.⁴ The amount issued was limited to the capital of bank concerned. The change was made because it was felt that additional currency was needed to offset the hoarding that was then going on.⁵

The law had little effect in Illinois as the total declined from \$24,503,000 in 1931 to \$20,718,000 in 1933. The only increase was in Chicago and for only about two million dollars.⁶

What Secretary Mellon could not accomplish--the retirement of national bank notes--is now in process of realization. Early in 1935 it was announced by treasury officials that not only

¹Ibid.

²See Individual Statements of Condition of National Banks, December 31, 1928.

³Bulletin, Illinois Bankers Association, Dec., 1927, p. 13.

⁴Report of Comptroller of the Currency, 1932, p. 4.

⁵Ibid.

⁶Data compiled from Reports of Comptroller of the Currency.

would Congress not be asked to extend the Glass-Borah provisions; but, also, that the \$600 million 2 per cent consols of 1930 and the \$75 million Panama Canal bonds bearing the circulation privilege would be retired during the year.¹ On August 1, 1935, it was announced that 113 million dollars of bonds had already been retired.² Of course, some time will be required for the complete fulfillment of this program.

The collapse of the banking system.--From July to December, 1930, there were sixteen failures of Illinois national banks. Of these twelve occurred in November and December.³ The failure of the Quincy Ricker National Bank of Quincy with capital of \$100,000 and deposits of 4 million did much to arouse distrust of the banking system.⁴ Benton, Illinois, found itself without a bank when the First National Bank closed its doors late in November. Reputed to be a strong bank it was unable to realize on loans fast enough to meet the demands of depositors.⁵

Beginning January, 1931, the Federal Reserve Bulletin records the failure of national and state banks for each month.⁶ Only five national banks failed from January, 1931, through May, 1931. More excessive were state bank failures which totaled 47. It was in June, 1931, that the situation became acutely alarming. During that month eight national banks and thirty-nine state banks failed. The Great Lakes Banker, which is the successor of the Bulletin of the Illinois Bankers Association, speaking in retrospect after the bank holiday, took the view that the failures of June, 1931, were caused by a wrong interpretation--that of weakness--placed upon the two Loop mergers.⁷ One of these mergers was that involving the Foreman bank; the other was the absorption of the National Bank of the Republic by the Central Trust Company.⁸ The Great Lakes Banker went so far as to attribute the "malicious

¹Chicago Tribune, March 12, 1935, p. 37.

²Ibid., August 1, 1935, p. 27.

³Report of Comptroller of the Currency, 1932, pp. 224-28.

⁴Chicago Banker, November 22, 1930, p. 12.

⁵Chicago Tribune, November 29, 1930, p. 24.

⁶The following data are compiled from Federal Reserve Bulletin.

⁷Great Lakes Banker, April, 1933, p. 16.

⁸Ibid.

rumors," which assuredly were in circulation, to the proponents of branch banking.¹ This quite patently, was errant nonsense.

The embarrassment of the Foreman National Bank was due to excessive real estate holdings. Its absorption by the First National Bank was clearly a "rescue party." These difficulties inevitably caused runs on the two national banks of Chicago controlled by the Foreman interests--the Washington Park National Bank and the Inland-Irving National Bank.² These banks closed. Five state banks controlled by the Foreman interests closed at the same time.³

Another factor contributing to the flurry of June, 1931, was the collapse of the twelve banks in the chain named after John Bain. When they closed their real estate loans were 106 per cent of their time deposits.⁴ At that time all state banks had real estate loans equal to 20 per cent of their savings deposits.

We have noted that two of the eight national banks that failed in June, 1931, were in Chicago. Two were located in Rockford, the Manufacturers National Bank and Trust Company with capital of \$125,000 and the Security National Bank with capital of \$200,000.⁵ The other four failures were in smaller centers. Illinois was experiencing a foretaste of what was in store for her.

For the next two months there was only one failure each month. Many writers in tracing the events leading up to the national bank holiday are prone to begin with England's abandonment of the gold standard on September 21, 1931, involving as it did a tremendous drain on our gold supply and tremendous pressure toward lower prices for exportable goods.⁶ Without denying the importance of this event, it should be stressed that Illinois had a near banking panic in June, 1931.

During the last four months of 1931 the number of national failures was 4, 8, 3, and 7 respectively. Of the 24 banks that failed during the second half of the year three were in Chicago, seven were in small cities and had capital of \$25,000, and eight

¹Ibid. ²Chicago Tribune, June 9, 1931, p. 1.

³Ibid. ⁴Chicago Banker, June 13, 1931, p. 9.

⁵Ibid., July 4, 1931, p. 8.

⁶Jules I. Bogan and Marcus Nadler, The Banking Crisis (New York, 1933), p. 70.

had capital of \$50,000.¹

The next year opened very inauspiciously with 15 national bank failures and 52 state bank failures in January. This total of 67 was an all time record for the state. During this month, Illinois gained her first experience with bank holidays. Gibson City took the lead when Mayor H. C. Krudup proclaimed a thirty day holiday on January 3 because of the run on the First National Bank of that city.²

On January 19, the Mayor of Champaign issued a proclamation closing all places of business for five days except drug and food stores, public utilities, and newspapers.³ This action followed a twenty day run of the First National Bank of Champaign, the bank controlled by B. F. Harris until his death and reputedly one of the strongest banks in the state as well as one of the oldest.⁴ The run took one million dollars from the bank of which \$250,000 was taken on January 18, the day before the proclamation was issued.⁵ This subjected the other banks to pressure and one million dollars was rushed by airplane from the Chicago Federal Reserve Bank on January 18.⁶ The holiday actually lasted only two days when it was considered safe to open.⁷ Attempts to save the Harris institution proving fruitless, a receivership was appointed March 4, 1932.⁸ The proposed plan for reorganization provided for immediate availability of 55 per cent of the deposits, the payment of 35 per cent in a year, and the rest, 10 per cent, was to be paid in stock in the new bank. Depositors were reluctant to accept the agreement and there was doubt as to the ability of the bank to pay 55 per cent immediately--hence the collapse of the plan.⁹

More spectacular was the five day "emergency business moratorium" called by the Mayor of Aurora on January 22, 1932.¹⁰

¹Report of Comptroller of the Currency, 1932, pp. 195,197.

²Chicago Tribune, January 4, 1932, p. 10.

³Ibid., January 20, 1932, p. 3. ⁴Ibid.

⁵Ibid., January 23, 1932, p. 8. ⁶Ibid. ⁷Ibid.

⁸Report of Comptroller of the Currency, 1932, p. 202.

⁹Chicago Banker, February 27, 1932, p. 10.

¹⁰Chicago Tribune, January 23, 1932, p. 5.

Four hundred business men met to take steps to restore confidence. When normal business was resumed 13,800 out of 14,100 depositors of the banks of that city had pledged themselves not to draw out more than 10 per cent of their deposits a month and had signed cards renouncing the right to hoard money in their safety deposit boxes. The day the banks opened over \$750,000 returned to the banks and the Mayor pronounced the holiday a "howling success."¹

On January 23, 1932, the Bloomington Clearing House Association voted to invoke the right to demand notice of withdrawal of savings deposits and to limit withdrawals to 5 per cent a month.² However, it was agreed that demands for ordinary living expenses would be met.³

The town of Mendota declared a holiday on January 23, 1932, to save the First National Bank of that city.⁴ Although pledges were elicited from almost all of the depositors, the directors voted to close the bank.⁵

Such are the main facts concerning the second banking flurry in Illinois. During the next four months (February to May inclusive) there were only 5 national bank failures and 22 state bank failures. In the issue of April 21, 1932, the Chicago Banker expressed the conviction that things were definitely on the up-grade.⁶

This optimism was without warrant, however, for June, 1932, represents the nadir of banking in Illinois. During that month 18 national banks closed their doors and 31 state banks. Unlike the runs of January, 1932, Chicago was the seat of the disturbance. Slow runs which had been going on throughout the spring reached panic proportions.⁷ Prophetic of later developments was the decision by the Peoples Trust and Savings Bank, early in June, to liquidate because its deposits had declined from 22 million dollars to 17 million dollars since March 30.⁸

If there was one event which precipitated the frenzied withdrawal of deposits during the last week of June, it was the

¹Ibid., January 28, 1932, p. 9.

²Ibid., January 23, 1932, p. 5.

³Ibid. ⁴Ibid., January 29, 1932, p. 13.

⁵Ibid. ⁶P. 10.

⁷Time, June 20, 1932, p. 33. ⁸Ibid.

placing of John Bain and his associates on trial on June 21.¹ While little that was new was brought to light, this trial did focus attention upon the unsoundness of the Chicago bank situation and the runs that had been going on for some time in a mild way were intensified.²

On June 21, 1932, the Standard National and the Peoples National Bank and Trust Company of Chicago closed their doors, along with one state institution, the Phillips State Bank and Trust Company.³ The following day one national bank and five state banks closed, including the Woodlawn Trust and Savings Bank with capital of \$600,000 and deposits of over 3 million dollars.⁴ The next day, June 24, seven banks failed, including the Hyde Park-Kenwood National controlled by John A. Carroll.⁵ On the following day five banks failed, three of which were nationals, the National Bank of Woodlawn, the Ravenswood, and the Midland National.⁶ Thereafter the failures abated somewhat.

Nor were the Loop banks immune. They might have been spared had not the Central Republic Bank and Trust Company been in genuine difficulties.⁷ As its deposits diminished from 160 million on March 30 to 112 million by the end of June, its stock fell from forty-six dollars a share to two dollars.⁸ This bank was saved only by a loan of 90 million dollars from the Reconstruction Finance Corporation from which Charles Dawes had resigned as Chairman only a few days before.⁹ Mr. Dawes then resumed his duties as Chairman of the Board of the Central Republic Bank and Trust Company from which he had been on leave of absence.¹⁰

So serious was the run on the First National Bank that on June 25 Melvin Traylor, its President, felt constrained to make two speeches--one to the crowd lined up to withdraw their savings deposits and the other to the people intent on withdrawing their

¹Ibid., July 4, 1931, p. 35.

²Ibid.

³Chicago Tribune, June 22, 1932, p. 13.

⁴Ibid., June 23, 1932, p. 11.

⁵Ibid., June 24, 1932, p. 9.

⁶Ibid., June 25, 1932, p. 9.

⁷Time, July 18, 1932, p. 35.

⁸Ibid.

⁹Ibid.

¹⁰Ibid.

checking deposits.¹ Mr. Traylor stressed the long and conservative history of the bank and how it had weathered every storm.² Also subjected to a sustained run was the Continental Illinois Bank and Trust Company. It was not until July 2 that the banking storm subsided.³

During the last half of the year only eight national banks failed in the state showing that the situation was becoming stabilized. However, there were fifty failures among state banks.

Two events, occurring during the second half of 1932, are generally regarded as important precursors of the bank holiday of March, 1933. They were the action of Congress in July, 1932, making public the loans of the Reconstruction Finance Corporation. The Great Lakes Banker is disposed to regard this as a colossal blunder causing runs on the banks that borrowed.⁴ Whatever the situation in other states, there is no evidence that the publication late in August of new loans to Illinois banks by the Reconstruction Finance Corporation had any effect upon the situation in that state.⁵ Perhaps this is because the weak banks had already closed.

The other event, generally regarded as a direct precursor of the nation-wide bank holiday, was the bank moratorium in Nevada beginning November 1 and lasting a month.⁶ This was to try to save the twelve Wingfield banks with deposits of 15 million dollars. Imprudent loans on livestock had put these banks in jeopardy.⁷ No connection between this holiday in Nevada and the Illinois situation is discernible.

We now turn to the events of early 1933 that immediately preceded the bank holiday. Five national bank failures occurred in January and one in February. For state banks the figures were 13 and 8 for these two months.

Two portentous events transpired in January, 1933. On January 16 a bank holiday of two weeks was declared in Rock Island,

¹Ibid., July 4, 1932, p. 35.

²Ibid.

³Ibid.

⁴April, 1933, p. 16.

⁵Chicago Tribune, Aug. 23, 1932, p. 9.

⁶Ibid., Nov. 2, 1932, p. 23.

⁷Ibid.

Moline, and East Moline.¹ A week later the Bankers Association of Normal and McLean Counties and the Bloomington Clearing House Association voted to require notice of withdrawal in the case of savings deposited and to limit withdrawals of demand deposits to 5 per cent a month.²

Nothing happened in Illinois in February that directly contributed to the impending collapse. It will be recalled that Governor O. K. Allen of Louisiana decreed a state holiday for Saturday, February 4, ostensibly in honor of the severing of diplomatic relations with Germany in 1917, but in reality because New Orleans banks were in difficulties.³

What made the nation-wide holiday inevitable was the action taken by Governor William A. Comstock of Michigan in calling a bank holiday for eight days beginning February 14.⁴ This drastic procedure, of necessity threw additional burden on banks in neighboring states; consequently, on February 26, the banks of Cleveland and Columbus, Ohio, were forced to limit withdrawals to 5 per cent a month.⁵ Meanwhile on February 25, 1933, Maryland entered into a three day holiday.⁶ Like wildfire the panic spread south and west until by March 3, bank holidays prevailed in thirty-three states.⁷

On March 2 a lengthy conference was held in Chicago. Apart from the decision of the banks of DuPage County to limit withdrawals to 5 per cent a month there was no untoward development in Illinois.⁸ The Chicago banks had comfortable excess reserves on March 1, and were not borrowing from the Federal Reserve Bank as were the New York banks.⁹ At this conference which was attended by the Governor, representatives of the Loop banks of Chicago, and officials of the Illinois Bankers Association, it was defi-

¹Chicago Banker, January 21, 1933, p. 10.

²Ibid., February 4, 1933, p. 10.

³Time, February 13, 1933, p. 41.

⁴Chicago Tribune, February 14, 1933, p. 1.

⁵Ibid., February 27, 1933, p. 23.

⁶Ibid., February 25, 1933, p. 19.

⁷Ibid., March 4, 1933, p. 1.

⁸Ibid., March 3, 1933, p. 1. ⁹Ibid.

nitely decided that the Illinois situation did not necessitate a holiday.¹

It seems that this conference was unduly optimistic as it was reported on March 5 that the Chicago banks had lost cash to the extent of 350 million dollars during the two weeks prior to the holiday.² The inevitable occurred at 3:30 A.M. March 4, when Governor Horner proclaimed a three day holiday to be followed by a seven day period of restricted withdrawals.³ The reason set forth was the heavy withdrawals caused by the bank holidays elsewhere. Illinois bankers gleaned some satisfaction from the fact that this action followed that of New York by several hours.⁴ On March 6, President Roosevelt declared a national holiday and from that time on federal regulation superseded all state arrangements.⁵

The reconstruction of banking in Illinois.--The Emergency Bank Act of March 9 provided that the President might extend the bank holiday at his discretion; that Federal Reserve Bank notes might be issued by the reserve banks secured by obligations of the federal government, up to 100 per cent of value, and by drafts and bankers' acceptances up to 90 per cent of value; and that for two years the reserve banks might make advances to member banks on notes secured to the satisfaction of the reserve banks but not technically eligible for discount.⁶

The Federal Reserve Bank of Chicago was accorded the responsibility of opening all member banks and the Auditor of Illinois had charge of non-member state banks. On March 13, thirty-four Chicago banks opened. These had 97 per cent of the banking resources of the city.⁷ By March 16 the Chicago Tribune was ready to argue that the prestige of Chicago had been enhanced by the holiday. To quote: "With banks aggregating approximately 98 per cent of the city's banking resources resuming normal and unrestricted operations, Chicago appeared to have come through the national holiday in better shape than any other large city."⁸

Two days later the same newspaper had this to say: "Chicago

¹Ibid. ²Ibid., March 5, 1933, Part II, p. 5.

³Ibid., March 4, 1933, p. 1.

⁴Ibid. ⁵Ibid., March 6, 1933, p. 1.

⁶Federal Reserve Bulletin, March, 1933, p. 114.

⁷Chicago Tribune, March 14, 1933, p. 1. ⁸p. 6.

emerges from the trying bank holiday period with its standing as a financial center greatly enhanced. . . . Not until New York bankers conceded that closing of banks was inevitable did the Chicagoans consent to a holiday."¹

According to a survey made by the Chicago Tribune in selected cities as of March 29, 1933, 92 per cent of deposits in Illinois were released whereas in Indiana only 73 per cent were released and from 65 to 70 per cent in Iowa, Michigan, and Wisconsin.² But if the casualties were relatively mild in Illinois it was only because the weeding out process had been so drastic prior to the holiday.

At the end of May, 1933, the comptroller reported that there were 274 licensed national banks in Illinois with deposits of 1,736 million dollars.³ Twenty-two were unlicensed but of these 18 were working on reorganization plans. However the number of banks in receivership, having failed prior to the holiday was 173.⁴

In reorganizing many national banks sold preferred stock to the Reconstruction Finance Corporation. Early in April the First National Bank of Joliet sold \$400,000 of preferred stock to that organization to raise new money. Fifty per cent of deposits were released immediately.⁵

On June 21, 1933, the First National Bank of Evanston opened with 60 per cent of its deposits available. New capital amounting to \$187,500 was put up by its stockholders and \$150,000 of preferred stock was taken by the Reconstruction Finance Corporation.⁶

However, the sale of preferred stock was not confined to banks in actual distress. In December, 1933, it was announced that the Continental Illinois National Bank and Trust Company would sell 50 million dollars of preferred stock to the RFC.⁷ To set up additional reserves for losses its common stock was reduced

¹Chicago Tribune, March 18, 1933, p. 23.

²April 2, 1933, Part II, p. 5.

³Chicago Banker, June 2, 1934, p. 10.

⁴Ibid. ⁵Chicago Tribune, April 13, 1933, p. 25.

⁶Ibid., June 21, 1933, p. 27.

⁷Ibid., December 21, 1933, p. 25.

from 75 million to 25 million.¹ Thus total charge-offs for losses reached the astounding figure of 128 million dollars. This transaction gave the RFC two-thirds of the voting power of the company.² In this case the RFC dictated the selection of the head of the bank and W. J. Cummings, a Chicago capitalist then connected with the Federal Deposit Insurance Corporation, was made chairman of the board on January 9, 1934, and the number of directors was reduced to 25 in accordance with the Banking Act of 1933.³ Three days later these arrangements were approved by the stockholders.⁴ But despite these vicissitudes, the next January this bank ranked sixth in deposits in the entire United States.⁵

In January, 1934, the First National Bank of Chicago sold 25 million dollars of preferred stock to the RFC.⁶ Its common stock remained unchanged at 25 million. When asked about the danger of federal domination of his bank, President Melvin Traylor replied that the control already exercised by the comptroller and the Federal Reserve System was so great that any additional regulation would be of no consequence.⁷

However, Jesse Jones, Chairman of the RFC, stated on January 11, 1934, that he had no intention of interfering in the affairs of the First National Bank.⁸ This attitude, of course, was due to the traditionally conservative policy of the First National Bank.

By the beginning of May, 1934, the following large national banks, in addition to the foregoing, had sold preferred stock to the RFC to the extent indicated:⁹

American National Bank and Trust Company	
of Chicago	\$750,000
Third National Bank of Rockford	300,000
Aurora Merchants National Bank	250,000
Chicago Builders National Bank	250,000
Swedish American National Bank of Rockford	200,000
First National Bank of Danville	200,000
First National Bank of Geneseo	100,000

¹Ibid. ²Ibid. ³Ibid., January 10, 1934, p. 1.

⁴Ibid., January 13, 1934, p. 25.

⁵Chicago Banker, January 26, 1935, p. 1.

⁶Chicago Tribune, January 10, 1934, p. 10.

⁷Ibid. ⁸Ibid., January 12, 1934, p. 25.

⁹Ibid., May 2, 1934, p. 27.

Thus it is evident that the federal government had a sizeable stake in the national banks of Illinois. Nor was this the extent of federal aid. The Deposit Liquidation Board, a division of the RFC, made loans of approximately 29 million dollars up to April 26, 1934, to expedite payments to depositors.¹

On October 31, 1934, 177 Illinois national banks were in the hands of receivers.² Of this number four had failed prior to 1930. Eighteen were in the city of Chicago. The capital stock of these 177 banks at the time of closing aggregated \$23,055,000.³ The total assessment on stockholders was \$21,575,000 but only \$7,629,530, or about 35 per cent, had been collected.⁴ This indicated that double liability of stockholders had failed signally as a propection to depositors.

Dividends paid by these banks on unsecured claims were \$38,411,317 or 40 per cent of total proved claims of \$110,234,384.⁵ Dividends on secured claims were \$1,017,938. The following frequency distributions show the payments made to depositors:⁶

<u>Dividends Paid</u>	<u>Number of Banks</u>
0- 9	26
10-19	15
20-29	17
30-39	25
40-49	21
50-59	25
60-69	24
70-79	11
80-89	12
90-99	<u>1</u>
Total	177

That there is no clearly defined mode is attested by the fact that the first division had 26 banks, the fourth had 25, and the sixth and seventh had 25 and 24 respectively. It is remarkable that only 24 banks had paid more than 70 per cent on deposits up to October 31, 1934.⁷

Receivers' salaries and expenses connected with the receiverships amounted to \$4,687,830 or 4.2 per cent of the claims proved, or 12 per cent of the dividends paid.⁸

¹Ibid.

²Report of Comptroller of the Currency, 1934, pp. 334-450.

³Ibid.

⁴Ibid.

⁵Ibid.

⁶Ibid.

⁷Ibid.

⁸Ibid.

National banking statistics.--Referring once more to Chart I, it will be noted that the number of national banks increased slowly from 465 in 1914 to 502 in 1925, and that following a slight decline, this item stood at 482 in 1929. The banking crisis reduced the number drastically to 263 in 1937, but by 1935 there were 299 national banks in the state.

Chart II, which shows the total resources of Illinois national banks, presents much the same picture. There was a steady rise until a total of 2.1 billion dollars was reached in 1928, whereupon there was a decline to 1.1 billion dollars by 1931. The increase of 700 million dollars from 1931 to 1932 is accounted for by the nationalization of the Continental Illinois Bank and Trust Company. In 1935 total resources were 2.8 billion dollars of which Chicago national banks had 83 per cent. In 1914 Chicago banks had 64 per cent of the total and 68 per cent in 1928.

Prior to June, 1930, failures of national banks were not excessive--only 17 to be exact. The most failures occurred in 1928 when 5 banks closed their doors, while during the preceding year 4 banks failed. The rest were scattered. During the interval from June, 1930, to March, 1933, there were 81 failures; these have already been discussed somewhat in detail.¹

State Banking in Illinois After 1914

State banking legislation.--In 1917, after prolonged debate, the state banking code was amended to prohibit unincorporated or private banking.² However, banks were given until January 1, 1921, to incorporate; and, to facilitate the process, the capital required of state banks in towns of less than 1,500 was lowered from \$25,000 to \$15,000.³ In 1919 the capital requirement was lowered to \$10,000 in towns of less than 1,500.⁴

At its convention in 1923 the Illinois Bankers Association, convinced that the time was ripe for constructive changes in banking legislation, passed a resolution instructing the administrative committee to appoint a committee to draw up a "comprehensive, constructive bill" that would "measure up to the require-

¹Data compiled from Reports of Comptroller of the Currency. See above, pp. 38 ff.

²Laws of Illinois, 1917, p. 207.

³Ibid., p. 210.

⁴Ibid., 1919, p. 223.

ments of modern banking."¹

Omar H. Wright of Belvidere was made chairman of this committee.² Sentiment in the Association was overwhelmingly for an independent banking department but the committee, at the suggestion of Andrew Russell, the Auditor of Public Accounts, voted not to press the matter at that time.³ Consequently the supervision of banking remained one of the manifold duties of the auditor.

But just as dear to the hearts of the members of the Association was the antibranch banking bill, formally known as House Bill No. 616. This bill, sponsored by the Illinois Bankers Association Committee, was approved June 28, 1923. It added the following paragraph to Section 9 of the code:

No bank shall establish or maintain more than one banking house, or receive deposits or pay checks at any other place than such house; and no bank shall establish or maintain any branch bank, branch office, or additional office or agency for the purpose of conducting any of its business.⁴

This ended the long argument concerning whether or not branch banking was legal in Illinois. Independent banking was firmly entrenched.

Senate Bill No. 549, approved June 28, 1923, modified several sections of the banking code. From this point on we shall notice a distinct trend toward closer regulation of banking. According to the terms of this bill, Section 2 was amended to provide that applications for charters had to be signed by five citizens if the city had less than 10,000 population; ten if from 50,000 to 100,000; and twenty-five if the city had over 100,000 population.⁵ Each signer was required to submit a sworn financial statement showing that he had property at least equal in value to the stock subscribed for. In addition three references as to personal character were specified.⁶ Quite obviously this was designed to eliminate unscrupulous bank promoters. Before this change the auditor was forced to issue a permit to any three persons making a request. Section 5, as amended, definitely gave the auditor

¹Proceedings of the Thirty-second Annual Convention, Illinois Bankers Association (1922), p. 198.

²Chicago Banker, November 11, 1922, p. 12.

³Proceedings of the Thirty-third Annual Convention, Illinois Bankers Association (1923), p. 124.

⁴Ibid.

⁵Laws of Illinois, 1923, p. 158.

⁶Ibid.

power to withhold a charter at his discretion if not satisfied with the personal character of the promoters.¹

Section 11 was changed so as to restore the old capital requirements--namely, \$25,000 in cities of less than 10,000 population, \$50,000 in cities of 10,000 to 50,000 population, and \$200,000 in places over 50,000 population.²

This applied only to new banks, so the former private banks were safe in the fold with capital as low as \$10,000.

These changes were duly submitted to the electorate and were declared effective by the Governor December 1, 1924.³

Realizing their strength, the members of the Illinois Bankers Association proceeded to further strengthen the banking code. The Association was especially interested in amendments to require all state banks to accumulate a reserve of 20 per cent of capital; to create a separate banking department; and to give the auditor more power in granting--or refusing to grant--charters.⁴ There was also strong sentiment for a general revision of the banking law.⁵

Yielding to the pressure from the Association, the legislature in 1927 passed a law providing for the establishment of a commission to revise and codify the laws of Illinois pertaining to banking.⁶ This commission, of which Auditor Oscar Nelson was Chairman, was composed of ten bankers and five members of each house. The ten bankers were appointed by the governor; the five Senate members by the executive committee of that body; and the five House members by their speaker.⁷ This commission held its initial meeting in Chicago March 7, 1928. After prolonged discussion it was decided not to draw up an entirely new act but to amend the existing bank laws.⁸

The findings of this commission were incorporated into House Bill No. 145 which was introduced in the House February 7,

¹Ibid., p. 160.

²Ibid., p. 163.

³Bulletin, Illinois Bankers Association, Nov. 30, 1924, p.2.

⁴Ibid., Jan. 31, 1926, p. 27.

⁵Ibid.

⁶Legislative Digest, 1927, p. 110.

⁷Ibid.; Bulletin, Illinois Bankers Association, Sept., 1927, p. 10.

⁸Ibid., April, 1928, p. 3.

1929, and, having passed both houses, was approved on June 4, 1929.¹ This bill gave Illinois a generally strong code. One's enthusiasm is somewhat abated by the fact that the changes were inspired by the monopolistic desires of the Illinois Bankers Association; but none the less the standards were raised.

Section 2 of the new law instructed the auditor to investigate each application for a charter and to issue a charter only when convinced that the "applicants are entitled to a permit to organize."² This was an improvement only in so far as a more careful scrutiny was required; for lack of need for a new bank was not regarded by the Supreme Court as a valid reason for refusing a charter. In an opinion filed October 23, 1920, the Supreme Court held in the case of People ex. rel. vs. Russell that the auditor might not refuse a charter because of lack of need if the petition otherwise complied with the statutory provisions concerning the granting of new charters.³

Section 2 was also amended to permit shares of bank stock of par value from \$10 to \$100; hence, Section 4 was changed to provide that each director must own stock the aggregate par value of which must be at least \$1,000, rather than ten shares of stock.⁴ This was in accordance with the trend to issue stock of lower par value.

As amended, Section 5 specified that no bank should start operating until the auditor ascertained by examination that it possessed a surplus of 10 per cent of capital and a reserve for operating expenses of 5 per cent of capital.⁵

Section 10, which deals with the limitations on loans, was likewise bolstered up. The basic limitation of advances to borrower to 15 per cent of capital plus 15 per cent of surplus with an upper limit of 30 per cent of paid-in capital was retained.⁶ The first three former exemptions from this rule were likewise retained: (1) bills of exchange drawn against actually existing values; (2) commercial paper actually owned by the per-

¹Ibid.; Legislative Digest, 1929, p. 217.

²Laws of Illinois, 1929, p. 175.

³Illinois Reports, CCXCIV, 283.

⁴Laws of Illinois, 1929, pp. 175-76.

⁵Ibid., p. 177.

⁶Ibid., p. 178.

son making the discount; and (3) loans secured by real estate worth twice the debt so secured.¹ The fourth exception--"evidences of indebtedness secured by a written pledge covering livestock"--was omitted from the new code.² Moreover the other concession of 1917 which permitted banks to violate the law with respect to size of loans if they deposited collateral or a "good and sufficient bond" with the auditor was omitted in the law of 1929.³ Thus was this section greatly improved.

Section 11 as amended required of new banks capital of \$50,000 in cities of less than 10,000 population; \$100,000 capital in cities of 10,000 to 40,000; and \$200,000 in cities with more than 50,000 inhabitants.⁴ Precisely as the legislature, under pressure from the private bankers, were excessively lenient in this respect in 1919, so in 1929 the legislature, under the domination of the Illinois Bankers Association went to the opposite extreme. An increase in capital requirements from \$10,000 to \$50,000 during a single decade is certainly a notable reversal of policy.⁵

The most outstanding improvement in banking legislation effected in 1929 was the addition of a new section, Section 11 1/2, which forbade the payment of dividends from capital and surplus and which provided that before paying dividends state banks must "carry one-tenth part of its net profits since the date of declaration of last preceding dividend to its surplus fund until the same shall amount to 20 per cent of its capital stock."⁶ One can only wish that this amendment had been added sooner.

In order to render consolidation easier an addition was made to Section 12. The paragraph added provided that a state bank might sell its assets to another bank, state or national, if two-thirds of its stockholders voted in favor of the sale and if the approval of the auditor was forthcoming.⁷ However, the dissenting stockholders were protected in that it was specified that they had to be bought out at a fair price to be fixed by the state courts.⁸ This was commendable because it made it possible to

¹Ibid.

²Ibid., 1917, p. 209.

³Ibid., 1929, p. 178; Ibid., 1917, p. 209.

⁴Ibid., 1929, p. 179.

⁵Ibid., 1919, p. 224.

⁶Ibid., 1929, p. 183.

⁷Ibid., p. 185.

⁸Ibid.

avoid receiverships through consolidations.

That Illinois was tending toward a sounder banking system is not to be denied. However, it must be remembered that nothing was done about reserve requirements. Moreover, the improvements that have just been discussed came too late to prepare the state banking system for the depression of the early 1930's.

Returning to the banking law of 1929, it should be noted that it was approved by the electorate of Illinois on November 4, 1930. The majority in favor was approximately 130,000.¹ No significant changes have been made since. The emergency of 1933 occasioned the passage of the Barbour bill (Senate Bill No. 600) which gave treasurers of municipalities with funds in closed banks the power to join in the reorganization of such closed banks if owners of 60 per cent of the deposits had assented to the reorganization.²

Illinois state banks and the Federal Reserve System.--We have already discussed the coming of the Federal Reserve System. We now discuss the System as it affected the state banks. It is notable that there was no enthusiasm on the part of the state banks to join the Federal Reserve System. For one thing the attorney general of Illinois at first entertained grave doubts concerning the rights of state banks under the general corporation law to hold stock in another corporation.³ However, upon further consideration, Attorney General Lucey issued this statement: "I am inclined to the opinion that there exists no substantial reason why state banks may not avail themselves of the provisions of the Federal Reserve Act and become member banks thereunder."⁴

In his report for 1914 the Auditor showed no marked cordiality toward state bank membership in the Federal Reserve System. He said in part:

The Federal Reserve Act has brought about few applications from state banks and trust companies for membership in the reserve banks. Until provisions are made under that Act to permit state banks to fully carry out the functions they are now performing, I can see no urgent reason for state banks,

¹Chicago Tribune, November 6, 1930, p. 11.

²Illinois Legislative Digest, 1933, No. 24, p. 218.

³Chicago Banker, January 10, 1914, p. 12.

⁴Ibid., January 14, 1914, p. 1.

except in the larger cities, availing themselves of the provisions of that Act.¹

The Central Trust Company of Illinois, located in Chicago and generally known as the Dawes bank, was the only state institution of Illinois to join the Reserve System at its inception. In 1915 two other banks came in--the Elmhurst State Bank and the Commercial Trust and Savings Bank of Joliet.² The three banks mentioned above were in the Chicago district. At the end of 1915 no Illinois state banks had joined the Federal Reserve Bank of St. Louis.³ Illinois entered the World War with only five state banks in the Reserve System--the three banks in the Chicago district already referred to and two accessions in the St. Louis district.⁴ In point of fact, this was 12 per cent of the total state bank membership, for only forty state banks in the entire country belonged to the System on March 1, 1917.⁵

In 1917 the Federal Reserve Act was modified so as to make membership more attractive. Reserve requirements, as we have seen, were reduced to 13 per cent in the case of demand deposits in central reserve cities, 10 per cent in reserve cities, and 7 per cent elsewhere.⁶ In all places reserves on time deposits were 3 per cent. It will be recalled, also, that only deposits with the reserve banks might count as reserves.⁷ Another and more important change was the guarantee of full charter rights as state institutions to state banks that joined the System. This was construed to be an exemption from the prohibition of joint directorships. Finally state banks were given the right to withdraw from the System on six months' notice.⁸

Admitting that these modifications of the law helped, none the less what brought the state banks into the System was largely the appeal to patriotism. In August, 1917, the Illinois Bankers

¹Auditor's Report, 1914, p. xvi.

²Report of the Federal Reserve Bank of Chicago, 1915, p.12.

³Annual Report of the Federal Reserve Board, 1915, p. 302.

⁴Ibid., 1918, pp. 228, 546.

⁵Federal Reserve Bulletin, March, 1917, p. 158.

⁶Annual Report of the Federal Reserve Board, 1918, p. 25.

⁷Ibid.

⁸Ibid.

Association, through its Bulletin, made the following mild appeal: "It would seem fitting and proper that prompt deliberation be given this question to the end that if it be deemed wise to enter the System the state banks of Illinois should have the honor of being foremost in this movement."¹

But it was the direct appeal of President Wilson in October, 1917, that brought results. This message to the banks included this statement: "I believe that co-operation on the part of the banks is a patriotic duty at this time, and that membership in the Federal Reserve System is a distinct and significant evidence of patriotism."²

To join the Federal Reserve System became the proper and patriotic thing to do. By the end of 1918, 57 state banks in Illinois had joined the Federal Reserve Bank of Chicago and 7 had joined the Federal Reserve Bank of St. Louis, making a total of 64.³

The significance of this development was greater than the bare figures indicate, for the larger banks, both in Chicago and downstate, were in the System. Not only was the gold that these banks carried in their vaults concentrated in the Reserve System where it could function most effectively as a monetary and credit base, but the sale of Liberty Bonds by the reserve banks was greatly facilitated and rediscounting by state banks was made direct and certain rather than through national banks or through the few state banks that were members. It was a distinct step toward coordination of banking.

It is noteworthy that after the war there was no decided change in state bank memberships. In 1929 the number of state banks of Illinois in the Reserve System was 62.⁴

The rehabilitation of the state banking system.--Following the national bank holiday, Auditor Barrett faced a titanic task in opening the state banks that did not belong to the Federal Reserve System. Determined to open only those banks that were "in

¹Bulletin, Illinois Bankers Association, August, 1917, p.6.

²Federal Reserve Bulletin, November, 1917, p. 828.

³Annual Report of the Federal Reserve Board, 1918, pp. 228, 546.

⁴Ibid., 1929, p. 268.

a safe and sound condition and worthy of the confidence of its depositors," the auditor proceeded to examine the non-member banks that were closed by the holiday.¹ This took time and there was no little discontent at the delay.² To intensify the dissatisfaction the auditor ruled that there was no basis in Illinois law for reopening with restrictions on deposits.³ Some states placed the burden primarily on the depositors by persuading, or coercing, them to waive part of their deposits. When pressed on this point Auditor Barrett said: "I am aware that in other states banks are being reopened with restrictions on deposits. In Illinois, however, there is no basis under the law for that type of reopening."⁴

In Illinois, therefore, the burden fell largely on the stockholders. However, in some cases where there appeared no other way of saving the bank, the auditor took a more liberal interpretation of the law and the depositors were asked to waive part of their deposits. In his report for 1934, the auditor made the following statement about the reopening of the banks: "The reopening and reorganization of so great a percentage of the banks was accomplished only through the co-operation of and heavy sacrifices by directors, stockholders, and, in some cases, depositors."⁵

Such a policy made reopening slow, and, consequently, by March 30, 1933, only about one-half of the downstate state banks were opened.⁶ However, by April 22, 1933, Barrett was able to report that 456 state banks with 91 per cent of the deposits were open.⁷ On June 10, 1933, the auditor announced that 624 of the 704 state banks that closed on March 3, were open. The banks that had opened had deposits of 741 million dollars or 93 per cent of the total.⁸ Of the 80 that were not open, 16 were in Cook County and 64 were downstate.⁹

However, a number of these went into liquidation, for a

¹Auditor's Report, 1934, p. 8.

²Chicago Tribune, March 30, 1933, p. 23.

³Ibid.

⁴Ibid.

⁵Auditor's Report, 1934, p. 8.

⁶Chicago Tribune, March 30, 1933, p. 23.

⁷Chicago Banker, April 22, 1933, p. 70.

⁸Chicago Tribune, June 11, 1933, Part I, p. 7.

⁹Ibid.

year later in his biennial report as of June 30, 1934, the auditor stated that 605 of the 704 banks that closed on March 3, 1933, were in operation.¹ He reported that 38 had liquidated without loss to depositors; that 51 were then in a receivership; that 3 had consolidated with national banks; and that the remaining 4 that were still in suspension would be liquidated.² Moreover, 5 banks placed in receivership prior to March 3, 1933, had been re-organized giving Illinois 615 active state banks as of June 30, 1934.³ As evidence of a hard duty faithfully performed, the auditor advanced the fact that every bank that he permitted to reopen had been granted deposit insurance.⁴

Because of the alleged stern policy with respect to re-opening, there were many threats to take out national charters; but in point of fact, only one state bank in Illinois nationalized during the first six months after the bank moratorium.⁵ This bank, the Stock Yards Bank and Trust Company, opened on April 6, 1933, as a national bank but only after F. H. Prince and his associates had agreed to subordinate deposits of four and one-half million dollars.⁶ The First Trust and Savings Bank of Sycamore took a national charter on December 11, 1933, and Neat, Condit and Grant, Bankers, of Winchester, on May 9, 1934.⁷

We now turn to the contribution of deposit insurance to the rehabilitation of the state banking system. So drastic had been the weeding out process that it is doubtful if deposit insurance had any real significance. It may be noted that the Great Lakes Banker complained bitterly that the deposit insurance "means the extinction of state banking systems and the unification of all banks under the control of the federal government."⁸ But when 1934 arrived it was found that 569 state banks with 99 per cent of the deposits had been admitted to the deposit insurance system.⁹ Only 33 banks did not apply. Only one of these, the Edge-water Trust and Savings Bank, was in Chicago.¹⁰ According to the

¹Auditor's Report, 1934, p. 8.

²Ibid.

³Ibid.

⁴Ibid.

⁵Ibid., p. 9.

⁶Ibid.; Chicago Tribune, April 5, 1933, p. 33.

⁷Auditor's Report, 1934, p. 9.

⁸June, 1933, p. 3.

⁹Chicago Banker, Jan. 6, 1934, p. 10.

¹⁰Ibid.

auditor the banks that did not apply for insurance were so liquid that they did not feel the need of it.¹

Finally, we must consider the progress of the multitudinous bank receiverships. Auditor Barrett, unlike his predecessor, believed in consolidating large numbers of closed banks under one receiver with deputy receivers for each bank. With this end in view, the Auditor on February 22, 1933, called for the resignation of the 145 receivers in Cook County to take effect at his pleasure.²

For a time the Auditor was blocked by the courts. In an action started by one of the discharged receivers, Superior Judge Denis E. Sullivan declared unconstitutional Section 11 of the Illinois banking act which gives the auditor the right to appoint receivers.³ The judge charged that Section 11 was an "unconstitutional delegation of judicial power to the state auditor."⁴ The Auditor immediately appealed and early in July, 1933, the Supreme Court reversed the lower court, ruling that the auditor and not the circuit judges possessed the sole right to appoint receivers.⁵

The Auditor forthwith consolidated 42 of the Cook County receiverships under Mr. W. L. O'Connell, hoping thereby to save the depositors at least \$100,000.⁶ By the end of 1934 O'Connell had been made receiver for 263 state banks.⁷ Working under him are deputy receivers, each with from two to eleven closed banks under his supervision.⁸

As may be expected the receiverships of state banks made a poor showing in comparison with national. The 21 closed national banks in Cook County paid to depositors 39 per cent of cash taken in up to December 31, 1934, whereas the closed state banks paid only 29 per cent to depositors.⁹ Moreover, the expenses of the receiverships which were 6 per cent of the money

¹Auditor's Report, 1934, p. 8.

²Chicago Tribune, February 22, 1933, p. 13.

³Ibid., February 26, 1933, Part I, p. 3. ⁴Ibid.

⁵Great Lakes Banker, July 1, 1933, p. 13.

⁶Chicago Banker, July 1, 1933, p. 13.

⁷Ibid., January 12, 1935, p. 12. ⁸Ibid.

⁹Chicago Tribune, January 26, 1935, p. 23.

collected in the case of the national banks of Cook County was 12 per cent for state banks.¹

The greatest discrepancy is found in the amount of cash spent to protect assets; that is, to pay taxes on real estate, make repairs, perhaps pay prior liens and the like. Up to December 31, 1934, the national receiverships in Cook County spent slightly less than 2 per cent of the money realized on assets for this purpose, whereas the state banks in receivership spent almost 14 per cent of their intake in this way.² This is because state banks were more heavily involved in real estate, hence, the receiverships have tended to become real estate management concerns.³

Complete data on downstate receivership is lacking but every quarter the auditor publishes the progress of state bank receiverships in Cook County. The reports as of June 30, 1935, show that 28 out of 142 Cook County state banks in receivership had paid no dividends to depositors.⁴ Twenty-one had paid from 10 to 15 per cent on deposits; fifteen from 15 to 19 per cent; and seventeen from 20 to 24 per cent.⁵ Thirty-six had paid from 25 to 50 per cent, and only twelve had paid more than 50 per cent.⁶ Most assuredly, this was a poor record!

State banking statistics.--Chart I shows the changes in the number of state banks. There was a pronounced increase from 751 in 1914 to 1,407 in 1923. There was then a moderate decline up to 1930 when the number of state banks in Illinois was 1,145. This was almost cut in half by 1933, 616 to be exact.

Chart III shows the phenomenal rise in the total resources of state banks from 869 million dollars in 1914 to 3,265 million dollars in 1929. The crisis of the early 1930's reduced this item to 844 million dollars and the increase since 1933 has been slight. Chicago state banks had 75 per cent of the total for the state in 1929 and 69 per cent in 1935.

From the beginning of this period until June, 1930, there were 78 failures of state banks. The most failures occurred in 1927 when 13 state banks closed; 1924 was second with 11 failures.

¹Ibid.

²Ibid.

³Ibid., July 24, 1935, p. 21.

⁴Ibid. to August 7, 1935, ca., p. 21.

⁵Ibid.

⁶Ibid.

The remainder were widely distributed. The failures of state banks after June, 1930, have already been analyzed; suffice it to say here that the total was 345 for the period up to the bank holiday.¹

Conclusion

From the foregoing historical discussion this fact stands in high relief: the recent banking difficulties were caused primarily by the overexpansion of banking in Illinois which was in turn induced by rather low banking standards. This is not to deny that the long depression would have subjected any banking system to great strain. With respect to state banking we have previously noted that no reserve requirements have ever been specified by law; that no separate savings institutions were set up; and that no segregation of assets underlying savings deposits was provided for. With respect to national banks we have seen that minimum capital was reduced from \$50,000 to \$25,000 in 1900, leading to a great increase in the number of national banks. Moreover, the national law after 1914 provided for exceedingly low reserves against savings deposits without prescribing the investment of savings funds. Finally, we have commented on the inordinate antipathy of state bankers toward branch banking which deprived the state of the possible stabilizing influence of strong branch banks. As the result of the foregoing factors there were 1,908 banks in Illinois in 1923. Later history proves that a majority of these banks were anything but strong.

What light does this throw upon the future of banking in Illinois? It may be stated at the outset that with federal insurance of deposits and with the weeding out of the weak banks there is no immediate danger of a recurrence of banking difficulties. Furthermore, the requirement of minimum capital for new banks of \$50,000 by both state and federal laws is most reassuring as a protection against an excessive number of small, weak banks. But far from resting in a security that may later prove illusory, the state should proceed to strengthen its banking system.

To be specific the state code should be amended to provide for definite reserves against deposits. An independent banking

¹Data compiled from Reports of Comptroller of the Currency. See above pp. 38 ff.

department should be established with authority to refuse bank charters if the proposed banks are not clearly needed by their respective communities. The state law should provide for the segregation of assets behind savings deposits. In the opinion of the writer the problems connected with savings deposits have received far too little attention. Finally, if state banking is not to be eclipsed by national banking, the state law must be modified to eliminate double liability on the part of stockholders of state banks.

The national law pertaining to banking leaves less to be desired; but, in the judgment of the writer, it should also provide for a segregation of assets underlying savings deposits.

The foregoing suggestions assume that branch banking is beyond the range of the possible. The writer personally favors branch banking within Federal Reserve districts; but in default of a cataclysm greater than the recent crisis, there is no prospect of such a development in Illinois. Of course, the federal government might force branch banking on Illinois by granting such powers to national banks, but this appears most improbable. However, branch banking is in no wise a prerequisite to a sound and conservative banking system.

CHART I
NUMBER OF BANKS
IN ILLINOIS







